



DEPARTMENT OF THE NAVY

GENERAL FUND PRINCIPAL STATEMENTS

PRINCIPAL STATEMENTS

The FY 2004 Department of the Navy, General Fund Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the General Fund for the fiscal year ending September 30, 2004, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2003.

The following statements are included in the Department of the Navy, General Fund Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The accompanying notes should be considered an integral part of the Principal Statements.

Department of Defense
Department of the Navy
CONSOLIDATED BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in thousands)

	2004 Consolidated	2003 Consolidated Restated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 81,874,818	\$ 78,191,653
Non-Entity Seized Iraqi Cash	0	0
Non-Entity - Other	219,095	223,225
Investments (Note 4)	9,457	9,801
Accounts Receivable (Note 5)	250,703	496,863
Other Assets (Note 6)	272,723	187,865
Total Intragovernmental Assets	\$ 82,626,796	\$ 79,109,407
Cash and Other Monetary Assets (Note 7)	\$ 234,865	\$ 282,995
Accounts Receivable (Note 5)	2,895,966	3,382,133
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	53,340,667	53,611,634
General Property, Plant and Equipment (Note 10)	151,679,503	158,407,450
Investments (Note 4)	0	0
Other Assets (Note 6)	5,000,348	6,180,624
TOTAL ASSETS	\$ 295,778,145	\$ 300,974,243
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 1,437,616	\$ 1,035,033
Debt (Note 13)	0	0
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	3,984,802	3,859,913
Total Intragovernmental Liabilities	\$ 5,422,418	\$ 4,894,946
Accounts Payable (Note 12)	\$ 1,395,008	\$ 1,742,522
Military Retirement Benefits and Other Employment-Related		
Actuarial Liabilities (Note 17)	1,575,815	1,589,971
Environmental Liabilities (Note 14)	16,031,979	15,614,424
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	4,020,826	3,785,962
Debt Held by Public (Note 13)	0	0
TOTAL LIABILITIES	\$ 28,446,046	\$ 27,627,825
NET POSITION		
Unexpended Appropriations (Note 18)	\$ 79,161,774	\$ 76,694,928
Cumulative Results of Operations	188,170,325	196,651,490
TOTAL NET POSITION	\$ 267,332,099	\$ 273,346,418
TOTAL LIABILITIES AND NET POSITION	\$ 295,778,145	\$ 300,974,243

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
CONSOLIDATED STATEMENT OF NET COST
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	2004 Consolidated	2003 Consolidated
Program Costs		
Intragovernmental Gross Costs	\$ 39,171,720	\$ 35,142,574
(Less: Intragovernmental Earned Revenue)	<u>(3,272,860)</u>	<u>(3,186,968)</u>
Intragovernmental Net Costs	\$ <u>35,898,860</u>	\$ <u>31,955,606</u>
 Gross Costs With the Public	 \$ 96,846,251	 \$ 81,168,783
(Less: Earned Revenue From the Public)	<u>(3,302,708)</u>	<u>(1,919,696)</u>
Net Costs With the Public	\$ <u>93,543,543</u>	\$ <u>79,249,087</u>
 Total Net Cost	 \$ 129,442,403	 \$ 111,204,693
Costs Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	<u>0</u>	<u>0</u>
Net Cost of Operations	\$ <u><u>129,442,403</u></u>	\$ <u><u>111,204,693</u></u>

The accompanying notes are an integral part of these statements.

Department of Defense

Department of the Navy

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2004 and 2003

(\$ in thousands)

	<u>2004 Consolidated</u>	<u>2003 Consolidated Restated</u>
Cumulative Results of Operations		
Beginning Balances	\$ 222,565,239	\$ 44,169,672
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	(25,913,750)	0
Beginning Balance, Restated	\$ 196,651,489	\$ 44,169,672
Prior Period Adjustments - Not Restated (+/-)	0	152,557,286
Beginning Balances, as adjusted	\$ 196,651,489	\$ 196,726,958
Budgetary Financing Sources:		
Appropriations Received	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	120,198,147	110,567,740
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	166,000	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	11,883	51,765
Imputed financing from costs absorbed by others	585,209	509,719
Other (+/-)	0	0
Total Financing Sources	\$ 120,961,239	\$ 111,129,224
Net Cost of Operations (+/-)	\$ 129,442,403	\$ 111,204,693
Ending Balances	\$ 188,170,325	\$ 196,651,489

The accompanying notes are an integral part of these statements.

Department of Defense

Department of the Navy

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2004 and 2003

(\$ in thousands)

	2004 Consolidated	2003 Consolidated Restated
Unexpended Appropriations		
Beginning Balances	\$ 50,781,179	\$ 64,774,328
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	25,913,750	0
Beginning Balance, Restated	\$ 76,694,929	\$ 64,774,328
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	\$ 76,694,929	\$ 64,774,328
Budgetary Financing Sources:		
Appropriations Received	\$ 123,917,983	\$ 122,132,688
Appropriations transferred in/out (+/-)	455,059	1,810,288
Other adjustments (rescissions, etc) (+/-)	(1,708,050)	(1,454,635)
Appropriations used	(120,198,147)	(110,567,740)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	\$ 2,466,845	\$ 11,920,601
Net Cost of Operations (+/-)	\$ 0	\$ 0
Ending Balances	\$ 79,161,774	\$ 76,694,929

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	2004 Combined Budgetary Financing Accounts	2003 Combined Budgetary Financing Accounts
BUDGETARY RESOURCES		
Budget Authority:		
Appropriations Received	\$ 123,948,477	\$ 122,169,428
Borrowing Authority	0	0
Contract Authority	0	739
Net transfers (+/-)	425,109	1,662,142
Other	0	0
Unobligated Balance:		
Beginning of period	14,695,238	11,908,983
Net transfers, actual (+/-)	195,950	145,546
Anticipated Transfers Balances	0	0
Spending Authority from Offsetting Collections:		
Earned	0	0
Collected	7,706,650	6,792,556
Receivable from Federal sources	(360,284)	(1,211,532)
Change in unfilled customer orders	0	0
Advances received	56,010	(59,842)
Without advance from Federal sources	467,506	308,282
Anticipated for the rest of year, without advances	0	0
Transfers from trust funds	0	0
Subtotal	<u>\$ 7,869,882</u>	<u>\$ 5,829,464</u>
Recoveries of prior year obligations	\$ 13,756,981	\$ 7,009,339
Temporarily not available pursuant to Public Law	0	0
Permanently not available	<u>(1,708,789)</u>	<u>(1,452,574)</u>
Total Budgetary Resources	<u>\$ 159,182,848</u>	<u>\$ 147,273,067</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 132,268,522	\$ 124,497,950
Reimbursable	8,886,330	8,079,881
Subtotal	<u>\$ 141,154,852</u>	<u>\$ 132,577,831</u>
Unobligated balance:		
Apportioned	\$ 13,973,108	\$ 13,697,001
Exempt from apportionment	0	0
Other available	0	0
Unobligated Balances Not Available	<u>4,054,888</u>	<u>998,235</u>
Total, Status of Budgetary Resources	<u>\$ 159,182,848</u>	<u>\$ 147,273,067</u>

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	2004 Combined Budgetary Financing Accounts	2003 Combined Budgetary Financing Accounts
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated Balance, Net-beginning of period	\$ 63,520,894	\$ 56,100,186
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, net-end of period:		
Accounts Receivable	(537,560)	(897,842)
Unfilled customer order from Federal sources	(2,802,982)	(2,335,476)
Undelivered Orders	63,723,755	63,419,000
Accounts Payable	3,473,010	3,335,213
Outlays:		
Disbursements	126,955,319	119,051,033
Collections	(7,762,660)	(6,732,714)
Subtotal	\$ 119,192,659	\$ 112,318,319
Less: Offsetting receipts	(115,027)	(246,802)
Net Outlays	\$ 119,077,632	\$ 112,071,517

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Navy
COMBINED STATEMENT OF FINANCING
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	<u>2004 Combined</u>	<u>2003 Combined</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 141,154,852	\$ 132,577,831
Less: Spending Authority from offsetting collections and recoveries (-)	<u>(21,626,865)</u>	<u>(12,838,803)</u>
Obligations net of offsetting collections and recoveries	\$ 119,527,987	\$ 119,739,028
Less: Offsetting receipts (-)	<u>(115,027)</u>	<u>(246,802)</u>
Net obligations	\$ 119,412,960	\$ 119,492,226
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	11,883	51,765
Imputed financing from costs absorbed by others	585,209	509,719
Other (+/-)	<u>0</u>	<u>0</u>
Net other resources used to finance activities	\$ <u>597,092</u>	\$ <u>561,484</u>
Total resources used to finance activities	<u>\$ 120,010,052</u>	<u>\$ 120,053,710</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered orders (-)	\$ 1,796,210	\$ (3,213,420)
Unfilled Customer Orders	523,516	248,440
Resources that fund expenses recognized in prior periods	(115,122)	(31,284)
Budgetary offsetting collections and receipts that do not affect Net		
Cost of Operations	0	0
Resources that finance the acquisition of assets	(12,412,218)	(26,444,222)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations		
Less: Trust or Special Fund Receipts related to Exchange budget (-)	0	0
Other (+/-)	<u>(11,883)</u>	<u>0</u>
Total resources used to finance items not part of the Net Cost of Operations	\$ <u>(10,219,497)</u>	\$ <u>(29,440,486)</u>
Total resources used to finance the Net Cost of Operations	<u>\$ 109,790,555</u>	<u>\$ 90,613,224</u>

The accompanying notes are an integral part of these statements.

Department of Defense

Department of the Navy

COMBINED STATEMENT OF FINANCING

For the years ended September 30, 2004 and 2003

(\$ in thousands)

	<u>2004 Combined</u>	<u>2003 Combined</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	\$ 188,260	\$ 0
Increase in environmental and disposal liability	427,489	0
Upward/Downward reestimates of credit subsidy expense	0	0
Increase in exchange revenue receivable from the public (-)	0	0
Other (+/-)	<u>193,243</u>	<u>428,344</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>\$ 808,992</u>	<u>\$ 428,344</u>
Components not Requiring or Generating Resources:		
Depreciation and amortization	\$ 17,475,862	\$ 16,936,476
Revaluation of assets and liabilities (+/-)	1,114,040	3,203,729
Other (+/-)		
Trust Fund Exchange Revenue	(30,297)	0
Cost of Goods Sold	0	0
Operating Material & Supplies Used	270,967	0
Other	<u>12,284</u>	<u>22,920</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 18,842,856</u>	<u>\$ 20,163,125</u>
Total components of Net Cost of Operations that will not require or generate resources in the current period	<u>\$ 19,651,848</u>	<u>\$ 20,591,469</u>
Net Cost of Operations	<u><u>\$ 129,442,403</u></u>	<u><u>\$ 111,204,693</u></u>

The accompanying notes are an integral part of these statements.



DEPARTMENT OF THE NAVY

GENERAL FUND NOTES TO THE PRINCIPAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy (DON), as required by the “Chief Financial Officers (CFO) Act of 1990,” expanded by the “Government Management Reform Act (GMRA) of 1994,” and other appropriate legislation. The financial statements have been prepared from the books and records of the DON in accordance with the “Department of Defense Financial Management Regulation” (DoD FMR), the Office of Management and Budget (OMB) Bulletin No. 01-09, “Form and Content of Agency Financial Statements,” and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which the DON is responsible; except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. In addition to the DON financial statements, and pursuant to OMB directives, financial reports are also prepared by the DON that are used to monitor and control the DON’s use of budgetary resources.

The DON is unable to fully implement all elements of Federal GAAP and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including feeder systems and processes. Reported values and information for the DON’s major asset and liability categories are derived largely from feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the DON cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The DON continues to implement process and system improvements addressing the limitation of its financial and feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable note.

Fiscal Year (FY) 2004 represents the ninth year that the DON has prepared audited financial statements as required by the CFO Act and the GMRA.

1.B. Mission of the Reporting Entity

The DON was created on April 30 1798 by an act of Congress (1 Stat. 533; 5 U.S.C. 411-12). The overall mission of DoD, as stated in the FY 2002 Annual Defense Report, is to assure allies and friends, dissuade future military competition, deter threats and coercion against U.S. interests, and defeating adversaries if deterrence fails.

1.C. Appropriations and Funds

The DON’s appropriations and funds are divided into the general, revolving funds, trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the DON’s missions.

General funds are used for financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The National Defense Sealift Fund is the DON’s only revolving fund.

Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Special funds account for receipts of the government that are earmarked for a specific purpose.

Deposit funds generally are used to (1) hold assets for which the DON is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

The asset accounts used to prepare the statements are categorized as either entity or non-entity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

ENTITY ACCOUNTS:

General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing Construction, Navy and Marine Corps
17 0735	Family Housing, Navy and Marine Corps (Operations and Maintenance)
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

Revolving Funds

17 4557	National Defense Sealift Fund, Navy
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Trust Funds

17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy Gift and Museum Fund

Special Funds

17X5095	Wildlife Conservation, Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts:

17 3XXX	Receipt Accounts
17X6XXX	Deposit Funds

1.D. Basis of Accounting

The DON generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2004, DON's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the DON's financial and feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. The DON has undertaken efforts to determine the actions required to bring its financial and feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the DON's financial and feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DON's financial data will be based on budgetary transactions (obligations, disbursements, and collections), and transactions from feeder systems, adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, the DON identifies programs based upon the major appropriation groups provided by Congress. The DON is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The DON recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

The DON does not include non-monetary support provided by U.S. Allies for common defense in mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in port. DoD is reviewing these types of financing and costs reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

1.F. Recognition of Expenses

For financial reporting purposes, DON policy requires the recognition of operating expenses in the period incurred. However, because the DON's financial and feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in the DON's operations until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of elimination of balances between DoD components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

1.G. Accounting for Intragovernmental Activities

The DON, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the DON as though the agency was a stand-alone entity.

The DON's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The DON's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The DON's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The DON funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The DON recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the DON must be eliminated. However, the DON, as well as the majority of the federal government, cannot consistently and accurately identify all intragovernmental transactions by customer. The Defense Finance and

Accounting Services (DFAS) is responsible for eliminating transactions between components or activities of the DON. For FYs 1999 and beyond seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Services (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2004, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The DON, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide" as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," issued October 2002, for reconciling intragovernmental transactions. These transactions pertain to investments in Federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of this Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

1.I. Funds with the U.S. Treasury

The DON'S financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the DON's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3.

1.J. Foreign Currency

The DON conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (Operations and Maintenance, Military Personnel, Military Construction, Family Housing Operations and Maintenance, and Family Housing Construction.) The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.

1.K. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at Note 5.

1.L. Loans Receivable.

Not applicable.

1.M. Inventories and Related Property

Effective October 1, 2002, SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). This standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Likewise, military equipment (previously referred to as National Defense Property, Plant, and Equipment) also includes items, which will now be classified as Operating Materials and Supplies (OM&S).

The DON uses the Latest Acquisition Cost method as its inventory systems were designed for material management rather than accounting purposes. The systems provide accountability for and visibility over inventory items. The systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory Related Property." Neither can they directly produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). DoD is transitioning to a Moving Average Cost methodology for valuing inventory and OM&S that when fully implemented will allow the DON to comply with SFFAS No. 3.

SFFAS No. 3 distinguishes between "inventory held for sale" and "inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DoD holds material based on military need and support for contingencies. Therefore, the DON does not attempt to account separately for items held for current or future use.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, the DON uses the purchase method - that is, expended when purchased. The DON reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

DoD implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Material that can be potentially redistributed, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in the "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosure related to inventory and related property is provided at Note 9.

1.N. Investments in U.S. Treasury Securities

For the Trust Funds, investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premium or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other methods if similar results are obtained. The DON's intent is to hold investments to maturity; unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The DON invests in non-marketable securities. The two types of non-marketable securities are par value and market based Intragovernmental securities. The Bureau of Public Debt issues non-marketable Par Value Intragovernmental Securities. Non-marketable, Market Based Intragovernmental Securities mimic marketable securities, but are not traded publicly. See Note 4 for material disclosures.

1.O. General Property, Plant and Equipment

Effective October 1, 2002, SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). This standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

General PP&E, exclusive of Military Equipment, is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E, are required to be capitalized. All General PP&E, other than land and Military Equipment, is depreciated on a straight-line basis. Land is not depreciated.

When it is in the best interest of the government, the DON provides government property to contractors when deemed necessary to complete contracted work. Such property is either owned or leased by the DON, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the DON's Balance Sheet. DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the DON currently reports only government property in the possession of contractors that is maintained in the DON'S property systems.

To bring the DoD into fuller compliance with federal accounting standards, DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards. Material disclosures are provided at Note 10.

1.P. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) the DON records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The DON records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the assets fair value. The DON deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, the DON classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

1.R. Other Assets

DON conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the DON provides financing payments for certain contracts. One type of financing payment that the DON makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as Construction-in-Progress and are reported on the General PP&E line and in Note 10, General PP&E, Net.

In addition, based on the Federal Acquisition Regulation (FAR), the DON makes financing payments under fixed price contracts that are not based on a percentage of completion. The DON reports these financing payments as advances or prepayments in the "Other Assets" line item. The DON treats these payments as advances or prepayment because the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DON for the full amount of the advance.

DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." DoD concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The DON's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the DON's assets. This type of liability has two components-- nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability begins when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon the DON's policies and consistent with SFFAS No.5 "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The Department has agreed to the recognition of nonenvironmental disposal liability for nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily identifiable separately from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

1.T. Accrued Leave

Civilian annual leave and military leave that has been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority, which are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not yet been incurred.

Cumulative results of operations represent the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2004. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater 10 percent between FY 2003 and FY 2004 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The DON obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered.

1.Y. Problem Disbursements

Disclosures Related to Problem Disbursements, In-transit Disbursements

As of September 30, (Amounts in thousands)	2002	2003	2004	(Decrease)/Increase from 2003 to 2004
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	\$ 352,000	\$ 144,000	\$ 183,570	\$ 39,570
B. Negative Unliquidated Obligations	41,000	42,000	32,110	(9,890)
2. Total In-transit Disbursements, Net	\$ 51,551	\$ (11,621)	\$ (23,714)	\$ (12,093)

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding obligation in the accounting system. Negative Unliquidated Obligations (NULOs) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts. In-Transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet posted in an accounting system.

UMDs, NULOs, and In-transit Disbursements, Net represent disbursements of DON funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The elimination of both Problem Disbursements and In-transits is one of the highest financial management priorities of the OUSD(C). Problem Disbursements and In-transits represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. As a result, the DON has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements.

1.Z. Data Collection Approach

The DON financial statements include information from both financial systems and feeder systems. The Defense Finance Accounting Service, Cleveland (DFAS-CL) and Kansas City (DFAS-KC) collect the financial system information and incorporate it into the financial statements. The DON collects financial information from feeder systems through a data call process and submits it to DFAS-CL & KC for incorporation into the financial statements. For FY 2004, the DON utilized a web-based data collection instrument (DCI) that captures all required financial information from feeder systems for the General Fund (GF) statements. This is the sixth year DON has used the DCI to collect information from feeder systems. The DON DCI identifies the information requirements to the source provider, provides an audit trail, and integrates into the financial statement preparation process.

NOTE 2. NON-ENTITY ASSETS

As of September 30,	2004	2003
<i>(Amounts in thousands)</i>		
1. Intragovernmental Assets:		
A. Fund Balance with Treasury	\$ 219,095	\$ 223,225
B. Investments	0	0
C. Accounts Receivable	0	0
D. Other Assets	0	0
E. Total Intragovernmental Assets	<u>\$ 219,095</u>	<u>\$ 223,225</u>
2. Non-Federal Assets:		
A. Cash and Other Monetary Assets	\$ 234,865	\$ 282,995
B. Accounts Receivable	2,755,331	2,642,167
C. Loans Receivable	0	0
D. Inventory & Related Property	0	0
E. General Property, Plant and Equipment	0	0
F. Investments	0	0
G. Other Assets	0	0
H. Total Non-Federal Assets	<u>\$ 2,990,196</u>	<u>\$ 2,925,162</u>
3. Total Non-Entity Assets	<u>\$ 3,209,291</u>	<u>\$ 3,148,387</u>
4. Total Entity Assets	<u>\$ 292,568,854</u>	<u>\$ 297,825,856</u>
5. Total Assets	<u><u>\$ 295,778,145</u></u>	<u><u>\$ 300,974,243</u></u>

6. Other Information Related to Non-Entity and Entity Assets:

Fluctuation and/or Abnormalities

Non-Entity Assets.

The DON reported a decrease of \$ 48,130 thousand, 17 percent, in Cash and Other Monetary Assets in FY 2004 when compared with FY 2003. The Disbursing Officers had more cash on hand in FY 2003 because of Operation Iraqi Freedom and subsequent events. In addition, the ATM at Sea and Navy Cash programs have contributed to the decrease of Cash and Monetary Assets.

Explanation of fluctuations for Entity Assets is included in the note for that particular asset. See notes 3-10.

Definitions

Assets are categorized as:

Entity accounts – Resources that the DON has the authority to use, or when management is legally obligated to use funds to meet entity obligations.

Non-Entity accounts - Assets held by an entity, but are not available for use in the operations of the entity.

Other Disclosures

Non-Entity Assets. As of year-end FY 2004, DON holds \$ 3,209,291 thousand Non-Entity assets. These assets are not available for use by the DON in its day-to-day operations but the DON maintains stewardship accountability and responsibility to report. There are three categories of significant non-entity assets held by the DON: (1) the Intragovernmental Fund Balance with Treasury, (2) the Nonfederal Cash and Other Monetary Assets, and (3) the Nonfederal Accounts Receivable.

Non-Entity Nonfederal Accounts Receivable (public). As of year-end FY 2004, Non-Entity Nonfederal Accounts Receivable contains \$1,333,494 thousand (principal) in advance payments made to contractors and \$1,128,742 thousand in associated accrued interest that remain in litigation. These balances are being reported in Non-Entity Accounts Receivable since the original appropriation year has been cancelled, and any funds collected as a result of this litigation would go to the Department of Treasury and not be available for the DON's use in normal operations. See Note 5 for additional information.

Reference

For Additional Line Item discussion, see:

- Note 3, Fund Balance with Treasury
- Note 4, Investments
- Note 5, Accounts Receivable
- Note 6, Other Assets
- Note 7, Cash and Other Monetary Assets
- Note 8, Direct Loans and/or Loan Guarantee Programs
- Note 9, Inventory and Related Property, Net
- Note 10, General Property, Plant, and Equipment (PP&E), Net

For regulatory discussion on Non-Entity and Entity Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1004.

NOTE 3.A. FUND BALANCE WITH TREASURY

As of September 30,	2004	2003
<i>(Amounts in thousands)</i>		
1. Fund Balances:		
A. Appropriated Funds	\$ 79,826,096	\$ 76,290,090
B. Revolving Funds	2,024,355	1,779,963
C. Trust Funds	18,245	18,877
D. Other Fund Types	225,217	325,947
E. Total Fund Balances	<u>\$ 82,093,913</u>	<u>\$ 78,414,877</u>
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	\$ 83,080,322	\$ 78,414,877
B. Fund Balance per DON	<u>82,093,913</u>	<u>78,414,877</u>
3. Reconciling Amount	<u>\$ 986,409</u>	<u>\$ 0</u>

4. Explanation of Reconciliation Amount:

(Amounts in thousands)

Receipt accounts unavailable to DON	\$ 48,315
Invalid program years	455
Cancelling years	<u>937,639</u>
Total Reconciling Amount	<u>\$ 986,409</u>

Fund Balance Per Treasury Calculation

(Amounts in thousands)

Undisbursed Appropriation Account Trial Balance (FMS 6654)	\$ 83,005,320
Receipt Account Trial Balance (FMS 6655 - IAS 613)	123,925
Less: 6655 Trust Funds Balances included in 6654	(30,343)
Less: 6655 Special Funds Balances included in 6654	<u>(18,580)</u>
Fund Balance Per Treasury	<u>\$ 83,080,322</u>

The Financial Management Services (FMS) 6653, which is the Undisbursed Appropriation Account Ledger, includes the current month's transactions and cumulative balances for any appropriation that had financial activity during the month. FMS 6653 is systematically interfaced with the Standard Accounting and Reporting System (STARS) for posting expenditure transactions. FMS 6654, which is the Undisbursed Appropriation Account Trial Balance, includes any activity and the cumulative balances for all appropriations regardless of whether they had activity for the month. Since the FMS 6654 is all-inclusive, this report is used to calculate FBWT. FMS 6655 is the Receipt Account Trial Balance.

5. Other Information Related to Fund Balance with Treasury:

Fluctuation and/or Abnormalities

Fund Balance with the Treasury is the total of entity accounts that the DON has the authority to use and non-entity accounts that are held by the DON but are not available for use in operations. The DON reported an increase of \$3,679,036 thousand, 5 percent, in FY 2004 when compared with FY 2003.

The only DON Revolving Fund is the National Defense Sealift Fund, Navy. The increase of \$244,392 thousand, 14 percent, in FY 2004 when compared with FY 2003 is a result of increased business activity for movement of goods and services over the sea-lanes.

Other Fund Types (Line 1.D), DON reported a decrease of \$100,730 thousand, 31 percent, in FY 2004 when compared with FY 2003. The majority of the decrease is the result of the cancelled transactions in the suspense accounts as described below.

Other Disclosures

To deal with reconciliation of check issue discrepancies and deposit differences that are aged 90 days or greater the following actions are being taken: (1) follow-up action with disbursing officers on the status of their resolving transactions listed on their statement of differences; (2) weekly teleconferences with the field sites and site visits; and (3) improving training.

Deposits.

Deposit Statements of Difference result when the deposit amount reported by the Disbursing Office on its monthly Statement of Accountability submission to the Department of the Treasury does not equal the amount of deposit information reported by the banking network to the Department of the Treasury for the monthly period.

Intragovernmental Payments and Collections.

The Intragovernmental Payment and Collections (IPAC) Statements of Difference result when the amount reported by the Disbursing Office on its monthly Statement of Accountability report to the Department of the Treasury does not equal the amount of the details reported through the Treasury's IPAC system which is one of the major components of the Government On-Line Accounting Link System II (GOALS II). The IPAC application's primary purpose is to provide a standardized interagency fund transfer mechanism for Federal Program Agencies (FPAs). IPAC facilitates the intragovernmental transfer of funds, with descriptive data from one FPA to another.

Reference

See Note Disclosure 1.I. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

For regulatory discussion on Fund Balance with Treasury, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 100501.

NOTE 3.B. DISCLOSURES RELATED TO SUSPENSE/BUDGET CLEARING ACCOUNTS

	2002	2003	2004	(Decrease)/ Increase from FY 2003 to 2004
As of September 30,				
<i>(Amount in thousands)</i>				
Account				
F3875	\$ (112,731)	\$ (262,678)	\$ (253,211)	\$ 9,467
F3880	(2,510)	(3,631)	2,453	6,084
F3882	(23,965)	(4,172)	(37,698)	(33,526)
F3885	(445,921)	(412,370)	(133,156)	279,214
F3886	(622)	(2)	9	11
Total	\$ (585,749)	\$ (682,853)	\$ (421,603)	\$ 261,250

Other Information Related to Suspense/Budget Clearing Accounts:

The DON, in conjunction with DFAS, has made a concerted effort to reduce balances in the suspense and budget clearing accounts that are disclosed in this note. However, the balances fluctuate during the year based on current activity. Additionally, the DON is establishing policies and procedures to ensure accurate and consistent use of these accounts. On September 30th of each fiscal year, all of the un-cleared suspense/budget clearing account balances are reduced to zero (as required by the Department of Treasury and DoD FMR Volume 3 Chapter 11 guidance) by transferring the balances to the predominate appropriation accounts. On October 1st of the following year, the un-cleared suspense/clearing account balances are reestablished.

The suspense accounts F3875/3885/3886 temporarily hold collections or disbursements until they can be assigned or identified to the proper appropriation. Each suspense account represents a specific source of transactions, i.e. Disbursing Officer's (DO) suspense (F3875), Interfund/IPAC (F3885), and Payroll (TSP) (F3886) suspense.

Clearance of Treasury Account Transactions.

Public Law 107-314, HR4546, Section 1009, "Clearance of Certain Transactions Recorded in Treasury Suspense Accounts and Resolution of Certain Check Issuance Discrepancies" issued December 2, 2002 allows for the cancellation of certain transactions. In order for transactions to qualify for cancellation, there must have been efforts made to locate documentation necessary to identify the appropriation to be charged or credited. In accordance with the above legislation, the following amounts were written off from the DON suspense accounts during FY 2004:

(Amounts in thousands)

17 F 3885	\$ 348,022 Net	\$ 354,558 Absolute
17 F 3875	36,446 Net	225,296 Absolute
17 F 3880	9,244 Net	9,244 Absolute

NOTE 4. INVESTMENTS

As of September 30, <i>(Amounts in thousands)</i>	2004					2003
	Cost	Amorti- zation Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
1. Intragovernmental Securities						
A. Marketable	\$ 0	N/A	\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Marketable, Par Value	0	N/A	0	0	0	0
C. Non-Marketable, Market-Based	9,432	N/A	(23)	9,409	9,409	9,706
D. Subtotal	\$ 9,432		\$ (23)	\$ 9,409	\$ 9,409	\$ 9,706
E. Accrued Interest	48		0	48	48	95
F. Total Intragovernmental Securities	\$ 9,480		\$ (23)	\$ 9,457	\$ 9,457	\$ 9,801

2. Other Investments: None

3. Other Information Related to Investments:

Fluctuation and/or Abnormalities

The DON reported a decrease of \$47 thousand, 49 percent, in accrued interest in FY 2004 compared with FY 2003. This is due to the decrease in the interest rates during FY 2004. The interest rate for February, June and August 2004 was 2.125, 1.75, and 2.00 percent, respectively. The average interest rate was 2.17 percent for this period.

Other Disclosures

The two DON Trust Funds holding interest-bearing securities are the Naval Academy General Gift Fund and the Navy General Gift Fund, which have a total Investment net value of \$9,457 thousand (including \$48 thousand of accrued interest.) These investments are Non-Marketable Market-Based securities reported at cost, net of amortized premiums and discounts.

Reference

See Note Disclosure 1.N. – Investments in U.S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.

For regulatory discussion on Investments, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1006.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30,	2004			2003
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<i>(Amounts in thousands)</i>				
1. Intragovernmental Receivables:	\$ 250,703	N/A	\$ 250,703	\$ 496,863
2. Non-Federal Receivables (From the Public):	\$ 3,203,625	\$ (307,659)	\$ 2,895,966	\$ 3,382,133
3. Total Accounts Receivable:	<u>\$ 3,454,328</u>	<u>\$ (307,659)</u>	<u>\$ 3,146,669</u>	<u>\$ 3,878,996</u>

4. Other Information Related to Accounts Receivables:

Fluctuation and/or Abnormalities

Intragovernmental Receivables.

The DON reported a decrease of \$246,160 thousand, 50 percent, in Intragovernmental Receivables in FY 2004 when compared to FY 2003. The decrease is a result of implementing the Under Secretary of Defense (Comptroller) memo of June 20, 2003, that directed the military departments to establish a goal to close out or collect all over-aged receivables by December 31, 2003. The DON established a plan of action and continues to aggressively implement the direction of the memo. In addition, the trading partner/elimination process with other Federal agencies (level one trading partner) and other organizations within DoD (level two trading partner) also contributed to the decrease of intragovernmental accounts receivable. The majority of the decrease, \$91,298 thousand, is with Navy Working Capital Fund, \$80,793 thousand with Other Defense Organizations General Funds, and \$57,922 thousand with Other Defense Organization Working Capital Fund, and \$16,430 thousand with Executive Office of the President.

Non-Federal Receivables.

The DON reported a decrease of \$486,167 thousand, 14 percent, in Non-Federal Receivables in FY 2004 when compared to FY 2003. The decrease in the Entity Receivables is \$599,329 thousand. The majority of the decrease is within Operation and Maintenance, Navy in the amount of \$418,881 thousand and Military Personnel, Navy in the amount of \$116,175 thousand. The total decrease is offset by the increase in Non-Entity Receivables in Contract Debt System (CDS)/Mechanization of Contract Administration Services (MOCAS) in the amount of \$126,586 thousand.

Allowance Method

The allowance method for Nonfederal Receivables (From the Public) is determined in the following methodology: For all program groups except Military Personnel appropriations, the DON estimates for the entity accounts receivable allowance is 3 percent. The entity accounts receivable allowance for Military Personnel is estimated to be 14 percent. Each estimate is based on write-offs of accounts receivable over the last three-year period. The non-entity accounts receivable allowance was established at 50 percent excluding interest receivables pertaining to pending litigation.

Intragovernmental Accounts Receivable Adjustments

Allocation of Undistributed Collections.

Undistributed collections are allocated between federal and non-federal categories based on the percentage of federal and non-federal Accounts Receivable as submitted in the field level general ledgers. This allocation was suggested as appropriate in a DFAS Arlington memorandum dated October 4, 2000, which required disclosure to the audit community of the applicable methodology used to allocate undistributed. For FY 2004, \$1,296,264 thousand in undistributed collections were allocated to accounts receivable. This amount represents a \$195,741 thousand or 13% decrease from FY 2003.

Elimination Adjustments.

The DON's accounting systems do not consistently capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DON was unable to reconcile intragovernmental accounts receivable balances with its trading partners. Through the ongoing Business Management Modernization Program (BMMP), the Department intends to develop long-term systems improvements that will capture the data necessary to perform reconciliations.

Intrafund transactions are eliminated based upon trading partner information obtained from the Bureau of Naval Personnel (BUPERS), Standard Accounting and Reporting System – Field Level (STARS-FL), and the Standard Accounting and Reporting System – Headquarters Module (STARS-HQ). The elimination data obtained from these systems included seller appropriation, grantor (buyer) appropriation, grantor subhead, grantor code, reimbursable source code, accounts receivable, revenue, unearned revenue, and amount collected.

Other Disclosures

Non-Federal Receivables (from the Public) includes Non-Entity Non-Federal Account Receivables and Entity Non-Federal Account Receivables.

Non-Entity Non-Federal Accounts Receivables (from the Public) includes the following:

<i>(Amounts in thousands)</i>	As of September 30, 2004
Contract Litigation Principal and Interest	\$2,462,236
Defense Debt Management System (DDMS)	20,297
CDS/MOCAS system debts	372,582
Civilian Pay (DCPS) debt	2,940
In-service Debt & Other Debt	66,475
JAG	4,138
Penalties, Fines and Admin. Fees and Interest	119,570
Gross Non-Entity Non-Federal A/R	\$3,048,238
Less Allowance	(292,908)
Nonentity Non-Federal Receivables, Net	\$2,755,330
Entity Non-Federal Receivables, Net	140,636
Non-Federal Receivables (From the Public), Net	\$2,895,966

The contract litigation includes principal of \$1,333,494 thousand, and accrued interest receivable of \$1,128,742 thousand. Interest receivable increased \$52,951 thousand from FY 2003.

Other Debt represents foreign military sales and services DON has provided to the public.

Abnormal Account Balances.

Abnormal Accounts Receivable balances may occur for two primary reasons: 1) the application of undistributed collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated March 1, 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances resulting from these conditions.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring the DON's intragovernmental accounts receivable into agreement with its trading partners' intragovernmental accounts payable.

Reference

See Note Disclosure 1.K. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

For regulatory discussion on Accounts Receivable, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1007.

NOTE 6. OTHER ASSETS

As of September 30, (Amounts in thousands)	2004	2003
1. Intragovernmental Other Assets:		
A. Advances and Prepayments	\$ 272,723	\$ 187,865
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 272,723	\$ 187,865
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	\$ 4,694,420	\$ 5,809,610
B. Other Assets (With the Public)	305,928	371,014
C. Total Non-Federal Other Assets	\$ 5,000,348	\$ 6,180,624
3. Total Other Assets:	<u>\$ 5,273,071</u>	<u>\$ 6,368,489</u>

4. Other Information Related to Other Assets:

Fluctuation and/or Abnormalities

Intragovernmental Other Assets.

The DON reported an increase of \$84,858 thousand, 45 percent, in Intragovernmental Other Assets, Advances and Prepayment in FY 2004 when compared with FY 2003. The balances reported are determined by the intragovernmental elimination process as submitted by DON's trading partners. In processing the elimination data, increase to Advances and Prepayments are recorded to compensate for the unresolved differences. The majority of the increase is with the following trading partners: Department of Interior \$177,407 thousand; Air Force General Fund \$69,510 thousand. The increase is offset by the decrease in Navy Working Capital Fund of \$130,165 thousand; Other Defense Organizations Working Capital Fund of \$29,842 thousand; and Air Force Working Capital Fund of \$7,356 thousand.

Non-Federal Other Assets.

DON reported a decrease of \$1,115,190 thousand, 19 percent, in Outstanding Contract Financing Payment in FY 2004 when compared with FY 2003. The majority of the decrease, \$1,295,246 thousand, is within the Aircraft Procurement Program. New contracts within the Aircraft program are being written as performance based contracts, and this business process change has reduced the amount of outstanding contract financing payments. This decrease is offset by the increase in Weapons Procurement of \$317,069 thousand. DON also reported a decrease of \$65,086 thousand, 18 percent, in Other Assets (With the Public) in FY 2004 when compared with FY 2003. The decrease is a result of fewer outstanding progress payments as previously issued Marine Corps contracts are being fulfilled.

Other Disclosures

Advances and Prepayment.

The buyer-side advances to others amounts were adjusted to agree with seller-side advances from others on the books of other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities.

Outstanding Contract Financing Payments.

The DON has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DON for the full amount of the outstanding contract financing payments. DoD is completing its review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32,48, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The DON has concluded that the SFFAS No. 1, "Accounting for Selected Assets and Liabilities" does not fully or adequately addresses the subject of progress payment accounting and is considering what further action is appropriate.

The following table displays the Outstanding Contract Financing Payments attributed by program:

<i>(Amounts in thousands)</i>	As of September 30, 2004
Aircraft Procurement	\$2,914,923
Shipbuilding and Conversion	558,521
Weapons Procurement	710,807
Other Procurement	487,214
Other (O&M, RDT&E)	22,955
Total	<u>\$4,694,420</u>

Reference

See Note Disclosure 1.R. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

For regulatory discussion on Other Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30, <i>(Amounts in thousands)</i>	2004	2003
1. Cash	\$ 232,946	\$ 224,881
2. Foreign Currency (non-purchased)	1,919	58,114
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 234,865</u>	<u>\$ 282,995</u>

5. Other Information Pertaining to Entity Cash & Other Monetary Assets:

Fluctuation and/or Abnormalities

The DON reported a decrease of \$56,195 thousand, 97 percent, in Foreign Currency in FY 2004 compared with FY 2003. This was offset by a slight increase in Cash held by Disbursing Officers of \$8,065 thousand. The overall decrease in Cash and Other Monetary Assets is a result of the draw down related to Operation Iraqi Freedom and subsequent events.

Definitions

Cash - the total of cash resources under the control of the DON, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds, which will not be transferred into the U.S. Government General Fund.

Foreign Currency - consists of the total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

Other Monetary Assets - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Restriction on Cash - all cash and other monetary assets reported are classified as non-entity, which means that the assets are not available for the DON's use in normal operations.

Other Disclosures

Cash and Foreign Currency reported consists primarily of cash held by Disbursing Officers to carry out their payment, collection, and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Form 1219, Statement of Accountability reported by DoD Disbursing Officers.

The DON translates foreign currency to U.S. dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

Reference

See Note Disclosure 1.J. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

For regulatory discussion on Cash and Other Monetary Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1009.

NOTE 8. A. DIRECT LOAN AND/OR LOAN GUARANTEE PROGRAMS

1. Direct Loan and/or Loan Guarantee Programs: The DoD operates the following direct loan and/or loan guarantee program(s):

Military Housing Privatization Initiative

2. Other Information:

The Military Housing Privatization Initiative (MHPI) fosters a mutually beneficial relationship between the DoD and the private sector. For the DoD, the MHPI results in the construction of more housing built to market standards, at a lower cost than through the military construction process. Commercial construction (Private Sector) is faster and less costly than military construction and significantly stretches and leverages the DoD's limited housing funds. The MHPI also provides protection against specific risks, such as base closure or member deployment, for the private sector partner.

An analysis of loans receivables, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections of this note.

DoD operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Stat. 186 Section 2801, includes a series of powerful authorities that allow DoD to work with the private sector to renovate military housing. DoD's goals are to:

- Obtain private capital to leverage government dollars,
- Make efficient use of limited resources, and
- Use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides DoD with a variety of authorities to obtain private sector financing and expertise to improve military housing. DoD uses these authorities individually, or in combination. They include:

- Guarantees, both loan and rental
- Conveyance/leasing of existing property and facilities
- Differential lease payments
- Investments, both limited partnerships and stock/bond ownership
- Direct loans

In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

- Direct loans - are reported net of allowance for subsidy at present value, and
- Loan Guarantee Liabilities - are reported at present value.

Reference

For regulatory discussion on Direct Loans and Loan Guarantee, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1010.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30,	2004	2003
<i>(Amounts in thousands)</i>		
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	53,340,667	53,611,634
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	<u>\$ 53,340,667</u>	<u>\$ 53,611,634</u>

NOTE 9.A. INVENTORY, NET

Not Applicable

NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

As of September 30, (Amounts in thousands)	2004			2003	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
1. OM&S Categories:					
A. Held for Use	\$ 49,608,556	\$ 0	\$ 49,608,556	\$ 49,948,473	LAC, SP, AC, O
B. Held for Repair	6,042,959	(2,310,848)	3,732,111	3,663,161	LAC, SP, AC, O
C. Excess, Obsolete, and Unserviceable	1,191,493	(1,191,493)	0	0	LAC, SP, AC, O
D. Total	<u>\$ 56,843,008</u>	<u>\$ (3,502,341)</u>	<u>\$ 53,340,667</u>	<u>\$ 53,611,634</u>	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost
adjusted for holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

2. Restrictions on OM&S: None

3. Other Information Related to OM&S:

Fluctuation and/or Abnormalities

No fluctuation and/or abnormalities need to be explained.

Information Related to Operating Materials and Supplies, Net

General Composition of Operating Materials and Supplies (OM&S).

OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines. The general composition of OM&S is as follows:

(Amounts in thousands)	September 30, 2004
Ammunition and Munitions	\$32,406,277
Appropriation Purchase Account (APA) Principal End Item	8,818,403
Sponsor Owned Material	9,024,008
APA Secondary Inventory	1,127,908
Real-time Reutilization Asset Management (RRAM)	1,525,591
Other	438,480
Total	<u><u>\$53,340,667</u></u>

Balances.

In addition to the account balances shown in Table 9.B., the Statement of Federal Financial Accounting Standards (SFFAS) No. 3 "Accounting For Inventory and Related Property" requires disclosure of the amount of OM&S held for "Future Use." This information is not captured by current OM&S systems which were designed for material management rather than accounting purposes. However, the DON estimates that \$16,633,878 thousand of the OM&S Held for Use will be used more than 24 months after the end of FY 2004.

Decision Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned.

In order to standardize reporting of the categories Held for Use, Held for Repair, and Excess, Obsolete, Unserviceable, DON implemented the Under Secretary of Defense (Comptroller) (USD(C)) condition code crosswalk as defined in the memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated August 12, 2002. In addition, a September 15, 2002, USD(C) memo amended the condition code crosswalk to include code "V" in the Excess, Obsolete, Unserviceable category. OM&S was reported as follows:

OM&S Category	Condition Codes
Held for Use	A, B, C, D
Held for Repair	E, F, G, J, K, L, M, N, R
Excess, Obsolete, Unserviceable	P, H, S, V

Valuation Method for OM&S.

In July, 2001, the OUSD(C) issued a memo requiring Moving Average Cost (MAC) as the approved valuation method for Inventory Held for Sale and Operating Materials and Supplies. "Each Military Department and Defense Agency responsible for material amounts of inventory or operating materials and supplies shall implement the moving average cost valuation method as systems are renovated or replaced." The DON is participating in the DoD Business Management Modernization Program that is currently reviewing and designing the Business Enterprise Architecture (BEA). The BEA provides for a master plan that includes guidance on transition plan strategy concepts, considerations, processes, and principles. MAC will be implemented as systems are renovated or replaced. Until then, the DON continues to value OM&S using different valuation methodologies such as standard purchase price or actual cost. These valuation methodologies vary by system.

Government Furnished Material (GFM) and Contractor Acquired Material (CAM).

Generally, the value of the DON's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.

Other Disclosures

Ammunition and Munitions.

Ammunition and Munitions are maintained and valued in the Conventional Ammunition Integrated Management System (CAIMS).

APA Principal End Items.

Principal End Items includes OM&S items such as shipboard hull, mechanical and electronic equipment, and uninstalled aircraft engines. Principal End Items are items of such importance that central inventory control is required. They normally possess one of the following characteristics: (a) essential for combat or training; (b) high dollar value; (c) difficult to procure or produce; or (d) critical basic materials or components.

Sponsor Owned Material (SOM).

SOM is defined as “programmatic material required in support of Program Manager mission requirements for production, life cycle maintenance, and installation of systems and equipment consistent with the mission charter. The material usage may involve, but is not limited to: item fabrication, assembly, testing, manufacture, development, repair, or research and development.”

Real-time Reutilization Asset Management (RRAM).

Material maintained and valued in RRAM is considered excess to the owner, but may not be excess to the Navy. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information.

Other Operating Materials & Supplies.

Other OM&S totaled \$438,480 thousand as of September 30, 2004. This consists primarily of \$383,310 thousand in Fleet Hospitals and War Reserves, and \$38,773 thousand material in the possession of the U.S. Coast Guard.

Reference

See Note Disclosure 1.M. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussion on OM&S, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101107.

NOTE 9.C. STOCKPILE MATERIALS, NET

Not Applicable

NOTE 10. GENERAL PP&E, NET

	2004					2003
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Net Book Value
As of September 30.						
<i>(Amounts in thousands)</i>						
1. Major Asset Classes:						
A. Land	N/A	N/A	\$ 567,889	N/A	\$ 567,889	\$ 603,961
B. Buildings, Structures, and Facilities	S/L	20 - 40	32,912,222	\$ (20,058,447)	12,853,775	21,007,724
C. Leasehold Improvements	S/L	lease term	231	(21)	210	0
D. Software	S/L	2-5 Or 10	3,071	(1,122)	1,949	423
E. General Equipment	S/L	5 Or 10	2,596,057	(2,078,308)	517,749	133,239,341
F. Military Equipment	S/L	Various	427,160,000	(293,030,000)	134,130,000	0
G. Assets Under Capital Lease ^[1]	S/L	lease term	432	(230)	202	146
H. Construction-in-Progress	N/A	N/A	3,607,729	N/A	3,607,729	3,555,856
I. Other			0	0	0	0
J. Total General PP&E			\$ 466,847,631	\$ (315,168,128)	\$ 151,679,503	\$ 158,407,451

^[1] Note 15.B for additional information on Capital Leases

S/L = Straight Line N/A = Not Applicable

2. Other Information Related to General PP&E, Net:

Fluctuation and/or Abnormalities

Building, Structures, and Facilities.

The DON reported a decrease of \$8,153,949 thousand, 39 percent, in the net book value of buildings, structures, and facilities in FY 2004 when compared with FY 2003. The reason for the decrease in net book value is an increase in accumulated depreciation. While testing and changing the query methodology for the depreciation module in Internet Naval Facility Asset Database Store (iNFADS), it was discovered that the methodology was not recognizing the depreciation of capitalized improvements for those buildings, structures, and facilities whose initial cost was fully depreciated. The cost of the capitalized improvements was in the reported book value of the DON real property and was captured by the iNFADS query. Since the DON initiated the OUSD(C) policy of separately identifying and depreciating capitalized improvements in FY 1999, the depreciation for the capitalized improvements records was not captured in the query methodology. The correction was made during 1st Quarter FY 2004. The revised query methodology now recognizes the depreciation expense for those fully depreciated buildings, structures, and facilities that have capitalized improvements associated with them. Therefore, this change to the query methodology resulted in an increase in accumulated depreciation and a decrease to the net book value. Other changes associated with the new query and validation of iNFADS database records also contributed to the overall increase in accumulated depreciation. A total of \$6,369,029 thousand of the accumulated depreciation contributed to the majority of the decrease in the Building, Structures, and Facilities.

Leasehold Improvements.

For FY 2004, the DON recognized \$210 thousand, net, in Leasehold Improvements. This recognition is part of the DON Financial Improvement Plan. Therefore, this is a 100 percent increase in FY 2004 when compared with FY 2003.

Software.

The DON reported an increase of \$1,526 thousand, 361 percent, in Software in FY 2004 when compared with FY 2003. The increase is a result of migrating DON activities to the Defense Property Accountability System (DPAS) in FY 2004. Among the assets migrated are capitalized software and therefore the increase.

General Equipment.

For FY 2003, Net Book Value of \$132,660,000 thousand of Military Equipment was not reported as a separate line item, but was reported in General Equipment Line.

Excluding the Military Equipment, the DON reported a decrease of \$61,592 thousand, 11 percent, in General Equipment in FY 2004 when compared with FY 2003. Among the decrease, \$46,252 thousand is a result of realignment of DON activities and the transfer out and disposal of remaining equipment from these locations.

Assets Under Capital Lease.

The DON reported a increase of \$56 thousand, 38 percent, in Assets Under Capital Lease in FY 2004 when compared with FY 2003. The increase is a result of migrating DON activities to Defense Property Accountability System (DPAS) in FY 2004.

Information Related to General PP&E, Net

Military Equipment.

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, establishes generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

DoD has determined that it is not practicable to accumulate the information needed to value military equipment in accordance with generally accepted accounting principles. The Department is working to revise its accounting processes and systems to support the informational needs of management and compliance with generally accepted accounting principles. In the interim, the Department will base the value of military equipment for financial statement presentation purposes on data provided by the Bureau of Economic Analysis (BEA), Department of Commerce.

The data provided by BEA consist of investment and net book value data for 84 groups of equipment such as aircraft, ships and combat vehicles. The Department adjusts BEA data to eliminate equipment items that are not accounted for as military equipment, such as spares, munitions, and inventory items, which are accounted for and reported as Inventory and Related Property.

BEA uses Department of Defense budget, expenditure, and delivery data to calculate the Department's annual investment in equipment, after recognizing any equipment transfers or war losses. BEA revised its Fiscal Year 2003 estimate. Previous BEA estimates were based, in part, on projections because source data was not available. The revised estimate for Fiscal Year 2003 is based on updated and more complete source data.

Further, the revised estimate reflects changes in the methods and data BEA uses to project the investment in, and depreciation of, military equipment resulting from BEA's 2003 Comprehensive Revision of the National Income and Product Accounts. A major factor in the reduction of the acquisition value of military equipment included in the updated estimate was new data that showed that governments purchased a smaller proportion of the domestic supply of software than had previously been estimated.

For the DON, the BEA analysis provided for an Acquisition value of \$427,160,000 thousand for military equipment, less an Accumulated Depreciation value of \$293,030,000 thousand giving a Net Book Value of \$134,130,000 thousand for military equipment as of FY 2004.

Property in the Possession of Contractors.

The value of the DON's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. Per the DoD FMR Volume 6B Chapter 10, DON is not supplementing General PP&E information with values from the Defense Contract Management Agency's CPMS (DD Form 1662) database. In accordance with an approved strategy with OMB, the GAO and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with Federal GAAP.

Other Disclosures

Real Property.

The Internet Naval Facility Asset Database Store (iNFADS) is used to report on real property values for financial statement reporting purposes.

Leasehold Improvements.

No leasehold improvements were reported for FY 2003, because the DON's real property system does not track leasehold improvements as a separate component of a building's total value. However, the DON is in the process of surveying commands to determine the value of leasehold improvements and began recognizing those values in FY 2004.

Software.

The DON uses the Defense Property Accountability System (DPAS) to capture costs associated with Internal Use Software.

Construction-in-Progress (CIP).

CIP balances were obtained from the Facilities Information System (FIS).

Preponderant Use.

Per the DoD FMR, Volume 4, Chapter 6, legal ownership is not always the determinant factor when establishing which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes. If the following four criteria are met, the preponderant user should report the property regardless of legal ownership or funding source:

- The asset embodies a probable future benefit;
- The DoD Component that reports the asset obtains the benefit and controls access to the benefit inherent in the asset;
- The transaction or event giving the Component the right to, and control over, the benefit has already occurred; and
- The predominantly used assets, taken as a whole, are material to the Component's financial statements.

During the course of FY 2004, the DON continued to identify properties whose preponderant users are other DoD Components. Until the Department is able to reconcile with the DoD Components the listing of properties and values, the DON will disclose in this note. Those entities utilizing material amounts of DON owned property are as follows (dollar values include both acquisition value and improvements meeting the capitalization threshold):

<i>(Amounts in thousands)</i>	<u>FY 2004</u>
Defense Commissary Agency (DeCA)	\$50,412
DoD Schools	39,142
Defense Logistics Agency (DLA)	21,616

Reference

See Note Disclosure 1.O. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General PP&E.

For regulatory discussion on General PP&E, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1012.

NOTE 10.A. ASSETS UNDER CAPITAL LEASE

As of September 30,	2004	2003
<i>(Amounts in thousands)</i>		
1. Entity as Lessee, Assets Under Capital Lease:		
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	432	206
C. Other	0	0
D. Accumulated Amortization	(230)	(60)
E. Total Capital Leases	<u>\$ 202</u>	<u>\$ 146</u>

2. Description of Lease Arrangements:

Leased assets consist primarily of personal property reported via the DPAS system. Disclosures pertaining to future payments due are provided at Note 15.

3. Other Information Related to Assets Under Capital Lease:**Fluctuation and/or Abnormalities**

The DON reported an increase of \$56 thousand, 38 percent, in Net Equipment Leases in FY 2004 when compared with FY 2003. The increase is a result of migrating several DON activities to DPAS in FY 2004. Prior to the use of the DPAS by these activities, these individual capital leases liabilities were not reported.

Reference

See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, (Amounts in thousands)	2004	2003
1. Intragovernmental Liabilities:		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Environmental Liabilities	0	0
D. Other	3,438,795	3,305,048
E. Total Intragovernmental Liabilities	<u>\$ 3,438,795</u>	<u>\$ 3,305,048</u>
2. Non-Federal Liabilities:		
A. Accounts Payable	\$ 89,472	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,575,816	1,589,971
C. Environmental Liabilities	16,031,979	15,614,424
D. Loan Guarantee Liability	0	0
E. Debt Held by the Public	0	0
F. Other Liabilities	3,478,823	3,298,340
G. Total Non-Federal Liabilities	<u>\$ 21,176,090</u>	<u>\$ 20,502,735</u>
3. Total Liabilities Not Covered by Budgetary Resources:	<u>\$ 24,614,885</u>	<u>\$ 23,807,783</u>
4. Total Liabilities Covered by Budgetary Resources:	<u>3,831,161</u>	<u>3,820,042</u>
5. Total Liabilities	<u><u>\$ 28,446,046</u></u>	<u><u>\$ 27,627,825</u></u>

6. Other Information Related to Liabilities Not Covered by Budgetary Resources:

Fluctuation and/or Abnormalities

Canceled years accounts payable were re-mapped from Non-Federal Other Liabilities to Non-Federal accounts payable as directed by Treasury guidance. The prior year amount was not re-mapped in the footnote at the time of completion of the statements. This resulted in an increase of \$89,472 thousand, 100 percent in Accounts Payable in FY 2004 when compared with FY 2003 for this line item. However, cancelled payable actually increased by \$66,234 thousand, or 285 percent in FY 2004.

An explanation of fluctuations and abnormalities for Total Liabilities Covered by Budgetary Resources is included in the specific note for that liability. See notes 12-17.

Definitions

- Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity that are covered by realized budgetary resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year.
- Realized budgetary resources include:
 - (1) New budget authority
 - (2) Spending authority from offsetting collections (credited to an appropriation or fund account)
 - (3) Recoveries of unexpired budget authority through downward adjustments of prior year obligations
 - (4) Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and
 - (5) Permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.
- Conversely, Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date. Budgetary Authority to satisfy these liabilities is expected to be provided in a future Defense Appropriations Act. When that future budgetary authority is provided, these respective liabilities will be recorded as Covered by Budgetary Resources with an associated funded expense. To prevent overstatement on the Balance Sheet and Statement of Net Cost, the liabilities previously recorded as Not Covered by Budgetary Resources and the associated unfunded expenses are reversed.

Other Disclosures

Intragovernmental Liabilities – Other (Not covered by Budgetary Resources) (line 1.D.) includes the following:

<i>(Amounts in thousands)</i>	<u>As of September 30, 2004</u>
FECA	\$565,885
Unemployment	75,204
Judgment Fund	41,833
DOD Education Trust	472
Liabilities to Treasury	<u>2,755,401</u>
Total	<u><u>\$3,438,795</u></u>

Judgment Fund.

Beginning in FY 2003 and continuing into FY 2004, the DON has made substantial progress in identifying and resolving Judgment Fund liabilities. Amounts recorded in the DON General Fund Judgment Fund include those that may be applicable to the Navy Working Capital Fund. This methodology is necessary, as current Department of Justice reports do not distinguish between the two reporting entities. Reporting the Judgment Fund is in compliance with OUSD(C) guidance to resolve any outstanding debt due to the Department of Treasury. The DON is in the process of working with the appropriate Major Commands to obtain documentation that supports the amounts that have been remitted to Department of Treasury, or provide the necessary funding to liquidate the liabilities. DON is working with the Department of Treasury to validate the amounts recorded in this account. FY 2004, the DON reported \$41,833 thousand as the outstanding Judgment Fund liability. Of this amount, \$41,547 thousand is attributed to Navy Contract Dispute Act (CDA); \$107 thousand is attributed to Marine Corps CDA; and \$179 thousand for the Notification and Federal Employee Antidiscrimination and Retaliation Act (No FEAR). However, there is \$66 thousand for No FEAR Act in dispute and has not been recorded.

Liability to Treasury.

Unliquidated progress payments and associated accrued interest receivables for contractor debt is reported as an unfunded liability to Department of the Treasury. Collections on this debt will be due and payable to Treasury as the appropriations are in a cancelled status. See Note 5 for further disclosure.

Nonfederal Liabilities – Other (Not covered by Budgetary Resources) (Line 2.F.) includes the following:

<i>(Amounts in thousands)</i>	<u>As of September 30, 2004</u>
Annual Leave	\$2,463,860
Capital Lease Liabilities	202
Military Equipment (Non-nuclear	
Nonenvironmental Disposal Liabilities)	565,796
Disposal Liabilities for Excess/Obsolete	
Structures	343,324
Contract Incentive	105,641
Total	<u>\$3,478,823</u>

Note Reference

For additional line item discussion, see:

- Note 8, Direct Loans and/or Loan Guarantee Programs
- Note 12, Accounts Payable
- Note 13, Debt
- Note 14, Environmental Liabilities and Disposal Liabilities
- Note 15, Other Liabilities
- Note 16, Commitments and Contingencies
- Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

NOTE 12. ACCOUNTS PAYABLE

	2004			2003
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
As of September 30, <i>(Amounts in thousands)</i>				
1. Intragovernmental Payables:	\$ 1,437,616	N/A	\$ 1,437,616	\$ 1,035,033
2. Non-Federal Payables (to the Public):	1,395,008	0	1,395,008	1,742,522
3. Total	<u>\$ 2,832,624</u>	<u>\$ 0</u>	<u>\$ 2,832,624</u>	<u>\$ 2,777,555</u>

4. Other Information Related to Accounts Payable:

Fluctuation and/or Abnormalities

Intragovernmental Account Payables increased \$402,583 thousand, 39 percent, in FY 2004 when compared with FY 2003. The varying needs and execution requirements of the DON generally caused fluctuations in the intragovernmental payables. Additionally, trading partner/ intragovernmental elimination process affected the intragovernmental Accounts Payable line. In FY 2004, in concert with the greater DoD level 1 trading partner improvement effort, DON recorded the following Accounts Payable with other Federal Agencies (level 1 trading partner): General Service Administration \$226,749 thousand; Department of Energy \$107,944 thousand; and Homeland Security \$17,766 thousand. There was also a change in Accounts Payable with some of the organizations within DoD (level 2 trading partner). There was a change within Navy Working Capital Fund in the amount of \$147,738 thousand and \$39,107 thousand with Other Defense Organization General Funds. The increase is offset by the decrease with Other Defense Organizations Working Capital Fund of \$175,710 thousand.

DON reported a decrease of \$347,514 thousand, 20 percent, in Non-Federal Accounts Payable in FY 2004 when compared with FY 2003. Among other events, the Marine Corps instituted a business process change in the Military Pay account using a new interface file that matches pay records with corresponding accounts payable records. This process change resulted in a reduction of \$380,000 thousand. Among offsets, liabilities for Cancelled Accounts are now recorded as Accounts Payable rather than Other Liabilities. This change in reporting policy added \$89,472 thousand to reported balances.

Definitions

Intragovernmental Accounts Payable - consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables.

Non-Federal Payables (to the Public) - are payments to nonfederal government entities and individuals.

Undistributed Disbursements.

Undistributed Disbursements are the difference between disbursements recorded at the detailed level to a specific obligation or payable in the activity field records versus those reported by the Department of the Treasury via the reconciled DD 1329 and DD 1400. This should agree with the undistributed disbursements reported on monthly accounting reports (SF 133/DD 1002). Generally, timing issues between systems cause undistributed disbursements. In-transit disbursements are payments that have been made by other agencies, entities, or systems that have not yet been recorded in the DON's accounting records. For FY 2004, total undistributed disbursements were \$4,396,148 thousand. This amount represents a \$201,756 thousand or 5 percent increase from FY 2003.

Intragovernmental Elimination.

Regarding inter-agency purchases; DON accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DON was unable to fully reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable, on another agencies' records that generated the payable.

Therefore, the DoD summary level seller accounts receivables were compared to the DON's accounts payable. An adjustment was posted to the DON'S accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the DON.

DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with existing or foreseeable resources. In the interim, DFAS is leading an effort to identify alternative means of capturing and recognizing buyer side trading partner data.

Other Disclosures

Abnormal Account Balances.

Abnormal Accounts Payable balances may occur because 1) the DON does not consistently record Accounts Payable upon receipt and acceptance of goods and services; 2) the application of undistributed disbursements; and 3) as a result of the intragovernmental transaction elimination process. Per DoD FMR Vol. 6B, Ch. 13, when an abnormal balance is created, an adjustment to Accounts Payable and Expenses should be made accordingly to recognize the shortfall.

Intragovernmental elimination adjustments are recorded at the component level, to bring the DON's intragovernmental accounts payable into agreement with its trading partners' intragovernmental accounts receivable. These elimination process adjustments may also result in abnormal accounts payable.

Reference

See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

NOTE 13. DEBT

Not Applicable.

NOTE 14. ENVIRONMENTAL LIABILITIES AND DISPOSAL LIABILITIES

As of September 30, (Amounts in thousands)	2004			2003
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities - Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	\$ 503,393	\$ 2,338,069	\$ 2,841,462	\$ 3,132,127
2. Active Installations--ER for Closed Ranges	22,029	560,972	583,001	341,266
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0	0
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	0	0	0	0
2. Active Installations--Environmental Closure Requirements	0	0	0	0
3. Active Installations--Environ.Response at Active Ranges	0	0	0	0
4. Other	0	0	0	0
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	446,732	663,920	1,110,652	1,155,946
2. BRAC Installations--ER for Transferring Ranges	5,762	50,019	55,781	15,551
3. BRAC Installations--Environmental Corrective Action	0	0	0	0
4. Other	0	0	0	0
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	5,693,000	5,693,000	5,565,000
2. Nuclear Powered Submarines	42,400	5,146,300	5,188,700	4,888,900
3. Other Nuclear Powered Ships	86,500	201,000	287,500	269,100
4. Other National Defense Weapons Systems	5,790	266,093	271,883	246,534
5. Chemical Weapons Disposal Program	0	0	0	0
6. Other	0	0	0	0
2. Total Environmental Liabilities:	\$ 1,112,606	\$ 14,919,373	\$ 16,031,979	\$ 15,614,424

3. Other Information Related to Environmental Liabilities:

Fluctuation and/or Abnormalities

Accrued Environmental Restoration (DERP funded) Costs.

The DON reported a net increase of \$241,735 thousand, 71 percent, for Active Installations ER for Closed Ranges in FY 2004 when compared to FY 2003. Of the total increase, \$33,500 thousand is due to adding 10 new unexploded ordnance (UXO) sites at Concord and Seal Beach, CA; \$76,000 thousand increase for Vieques, Puerto Rico; \$19,000 thousand increase in Cost to Complete (CTC) based on findings from Preliminary Assessments; \$88,000 thousand increase in CTC due to addition of Munitions Response Program support and adjustment for inflation; \$30,000 thousand increase for CTC for Site Investigation at Marine Corps sites; and \$5,500 thousand for program growth. The program increases were offset by \$12,097 thousand for cleanup efforts.

Base Realignment and Closure (BRAC).

The DON reported an increase of \$40,230 thousand, 259 percent, in FY 2004 when compared to FY 2003. Of the increase, \$36,300 thousand is due to the sites moving from ER program to ER for Transferring Ranges.

Environmental Disposal for Weapon Systems.

Other National Defense Weapons Systems – The DON reported an overall increase of \$25,349 thousand, 10 percent, in FY 2004 when compared to FY 2003. The increase is related to an estimate for the disposal of Trident Missile Motors.

Information Related to Environmental Liabilities

Accrued Environmental Restoration (DERP Funded) Cost Liabilities.

For FY 2004, the DON estimated and reported \$3,424,463 thousand for environmental restoration liabilities. This amount is comprised of \$2,841,462 thousand in Active Installations - Environmental Restoration (ER) liabilities and \$583,001 thousand in Active Installations – ER for Closed Ranges liabilities, which represents UXO. The DoD FMR, Volume 6B, Chapter 10 requires that “any estimate produced must be based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61.” The DON is supporting this requirement by continuing to validate its range inventory as well as by pursuing the process of obtaining valid cost estimates for each range.

Other Accrued Environmental Costs (Non-DERP funds).

The DON developed guidance for the DON Major Commands to use as they begin to identify site data and develop estimates for the DON’s “ongoing” operations. The DON continued review of program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure. For these areas the DON has identified an estimated total liability of \$288,215 thousand in FY 2004. However, the DON is currently not reporting this amount within the General Fund financial statements until the Major Commands are able to identify all the site data and complete the estimates for the Non-DERP costs. The DON plans to start reporting the Other Accrued Environmental Costs (Non-DERP) within the financial statements beginning with FY 2006.

Base Realignment and Closure (BRAC).

For FY 2004, the DON estimated and reported \$1,166,433 thousand for BRAC funded environmental restoration liabilities. This amount includes \$1,110,652 thousand for environmental restoration (ER) and \$55,781 thousand for ER transferring ranges, which includes military munitions, chemical residues from military munitions, and munitions scrap at locations on or associated with a military range on a BRAC installation.

Environmental Disposal for Weapons Systems Programs.

The DON reported an environmental disposal liability for Weapons Systems Programs of \$11,441,083 thousand in FY 2004. This amount includes nuclear powered aircraft carriers of \$5,693,000 thousand, nuclear powered submarines of \$5,188,700 thousand, other nuclear powered ships of \$287,500 thousand and other national defense weapons systems of \$271,883 thousand.

Methodology Used to Estimate Environmental Liabilities

Accrued Environmental Restoration (DERP Funded) Costs.

Active Installations – Environmental Restoration (ER): Accrued restoration (cleanup) liabilities represent the cost to correct past environmental areas that are funded under the Defense Environmental Restoration Program in accordance with “Management Guidance for the DERP,” and “Accrued Environmental Restoration (Cleanup) Liabilities,” Chapter 14 of Volume 4 of the DoD FMR. These liabilities relate to PP&E, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of the DoD FMR. Environmental restoration activities may be conducted at operating installations, at FUDS, at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. Program management and support costs are included in the estimates. The estimates are based on the DON’s cost-to-complete (CTC) module of the DON Normalization of Data System (NORM). Certification of the CTC module was completed early in FY 2002. Such cost estimates are based on the current technology available. Site inventory and estimated cost data prepared for the DERP report to the Congress was used by the DON as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services). The Accrued Environmental Restoration (Cleanup) Costs do not include the costs of environmental compliance, pollution prevention, conservation activities, contamination or spills associated with current operations, or treaty obligations, all of which are accounted for as part of ongoing operations. The Department of the Navy’s Environmental Restoration (ER,N) Program includes 3,692 clean-up sites while those installations covered by Base Realignment and Closure (BRAC) funding includes 1,057 clean-up sites.

Active Installations – Environmental Restoration For Closed Ranges: This represents the environmental liabilities associated with the identification, investigation and removal and remedial actions to address environmental contamination at ranges that were closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported is the portion of the liability that can be estimated based on site level investigations and characterizations. The estimate produced is based on site-specific information and use cost models validated in accordance with DoD Instruction 5000.61. Total liabilities (cost-to-complete) are not estimated until there is sufficient site-specific data available to estimate the total liability. Beginning in FY 2001, the Department began an inventory of closed ranges and transferring ranges under the Military Munitions Response Program (MMRP) or UXO program. The inventory was completed September 2002 and contains 208 closed ranges at active installations and 19 transferring ranges at BRAC sites.

Information regarding changes

Survey data of the Department of the Navy Environmental Restoration Program cost estimate changes for sites that had over 10 percent change or \$500 thousand indicates diverse reasons for change in estimates. The reasons for changes include estimation changes (26 percent), regulatory changes (60 percent), and technical changes (15 percent). Reasons for changes in estimation are as follows: cost-to-complete (CTC) overlooked or previously unknown, better site characterization with sampling, cost avoidance rerun CTC, re-estimation based on different assumptions and/or escalation, and re-estimation of costs based on lessons learned. Reasons for changes in the regulatory area include: addition of range rule/munitions requirements, additional or extended long-term monitoring requirements or 5 year reviews, no further action agreement with regulator, and risk based corrective action. Reasons for changes in the technical area include: additional contamination level reduction with sampling, additional or extended remedial action operation, additional sites and incomplete site data, and changes in technical solutions.

Reference

The following is a summary of significant laws that affect the Department's conduct of environmental policy and regulations.

The National Environmental Policy Act (NEPA) of 1970 requires the Department to consider the environmental impacts of proposed actions in the decision making process. Per DON regulations, the action proponent will determine the level or amount of NEPA documentation required. The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984 (HSWA), was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for "cradle to grave" tracking of hazardous wastes. Permits are required for treatment, storage or disposal. Requirements for underground storage tanks (USTs) are also contained in RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund legislation, provided for Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. CERCLA was amended several times; one of the amendments was the Community Environmental Response Facilitation Act of 1992. The Department must identify real property on each facility that is not contaminated and that offers the greatest opportunity for expedited reuse and redevelopment. When property is transferred, BRAC or non-BRAC, the Department is still responsible for any remediation or corrective action or any response action found to be necessary after the transfer.

For the nuclear powered aircraft carriers, submarines, and other nuclear ships, the following significant laws affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material. As in all cases with nuclear power, the Department coordinates all actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 required all owners and generators of high-level nuclear waste and spent nuclear fuel, to pay their respective shares of the full cost of the program. Finally, the Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

For additional information concerning applicable laws and regulations, methodology for assigning estimated cleanup costs, and description of sites and technology used for cleanup consult the "FY 2002 Defense Environmental Restoration Program Annual Report to Congress."

For regulatory discussion on Environmental Liabilities, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1016.

NOTE 15.A. OTHER LIABILITIES

As of September 30, (Amounts in thousands)	2004			2003
	Current Liability	Noncurrent Liability	Total	Total
1. Intragovernmental:				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	256,784	0	256,784	223,225
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	234,866	0	234,866	282,996
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H. Judgment Fund Liabilities	41,833	0	41,833	49,157
I. FECA Reimbursement to the Department of Labor	245,461	320,423	565,884	562,105
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	2,885,435	0	2,885,435	2,742,430
L. Total Intragovernmental Other Liabilities	<u>\$ 3,664,379</u>	<u>\$ 320,423</u>	<u>\$ 3,984,802</u>	<u>\$ 3,859,913</u>
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	\$ 414,999	\$ 0	\$ 414,999	\$ 394,706
B. Advances from Others	0	0	0	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	699	0	699	2,933
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	565,796	565,796	574,916
(2) Excess/Obsolete Structures	53,707	289,617	343,324	324,270
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	23,238
J. Accrued Unfunded Annual Leave	2,463,860	0	2,463,860	2,269,191
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	202	0	202	146
M. Other Liabilities	150,592	81,355	231,947	196,562
N. Total Non-Federal Other Liabilities	<u>\$ 3,084,059</u>	<u>\$ 936,768</u>	<u>\$ 4,020,827</u>	<u>\$ 3,785,962</u>
3. Total Other Liabilities:	<u>\$ 6,748,438</u>	<u>\$ 1,257,191</u>	<u>\$ 8,005,629</u>	<u>\$ 7,645,875</u>

4. Other Information Pertaining to Other Liabilities:

Fluctuation and/or Abnormalities

Intragovernmental Other Liabilities.

The DON reported an increase of \$33,559 thousand, 15 percent, in Deposit Funds and Suspense Account Liabilities (Line 1C) in FY 2004 when compared with FY 2003. The increase is due to implementing the Treasury and OUSD(C) policy on disbursement balances in the non-entity accounts. The disbursement balance was previously classified in USSGL 2400, Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections, and now is recorded in USSGL 2120, Disbursements in Transit. The DON also reported a decrease of \$48,130 thousand, 17 percent, in Disbursing Officer Cash (Line 1E) in FY 2004 when compared to FY 2003. It is the result of the draw down from Operation Iraqi Freedom and subsequent events.

The expansion of the ATM at Sea and Navy Cash programs in FY 2004 also contributed to the decrease of Disbursing Officer Cash as Disbursing Officers do not need as much cash on hand. In addition, the DON reported a decrease of \$7,324 thousand, 15 percent, in the Judgment Fund Liabilities (Line 1H) in FY 2004. The decrease is due to the aggressive effort of the DON to reconcile and resolve claims under the Contracts Dispute Act.

Nonfederal Other Liabilities.

The DON also reported a decrease of \$2,234 thousand, 76 percent, in Temporary Early Retirement Authority in FY 2004. Some DON commands did not update the Status of Funds in 4th Quarter FY 2003 and corrective action was taken in FY 2004. Accounts Payable – Cancelled Appropriations decreased \$23,238 thousand, 100 percent for this line item, in FY 2004 due to a policy change that requires reclassifying it as Accounts Payable. However, cancelled payables actually increased by \$66,234 thousand, or 285 percent in FY 2004. DON is reviewing the process of recording and liquidating cancelled appropriation liabilities. Capital Leases Liability increased \$56 thousand, 38 percent, in the FY 2004 is due to the migration of DON activities to the Defense Property Accountability System (DPAS) in FY 2004. In addition, Other Liabilities increased \$35,385 thousand, 18 percent, due to an increase of \$36,324 thousand in Contract Holdbacks with the majority in Aircraft Procurement.

Other Disclosures

Intragovernmental Other Liabilities:

Judgment Fund (Line 1.H).

The DON must reimburse the Department of the Treasury for payments made from the Judgment Fund on its behalf. These payments are a result of claims being resolved under the Contracts Dispute Act. Great strides have been made in reconciling and identifying the outstanding Judgment Fund Liability. Since FY 2003, the DON has reduced the Judgment Fund from \$49,157 thousand to \$41,833 thousand.

In addition, the Notification of Federal Antidiscrimination and Retaliatory Act (No FEAR) was implemented on October 1, 2003. This law requires all agencies to reimburse the Judgment Fund for cases covered by the No FEAR Act. For FY 2004, the DON reported \$179 thousand for No FEAR Act liabilities. However, there is \$66 thousand for the No FEAR Act in dispute and has not been recorded.

Other Liabilities (Line 1.K.) includes the following:

<i>(Amounts in thousands)</i>	<u>As of September 30, 2004</u>
Liability to Treasury & Others	\$2,757,397
Unemployment	75,204
Employment Benefit	<u>52,834</u>
Total Intragovernmental Other Liabilities	<u><u>\$2,885,435</u></u>

With respect to the major fiduciary balances, the DON must reconcile with the DOL and OPM. In FY 2004, the DON reported the following Intragovernmental Fiduciary liabilities: \$565,884 thousand in FECA, \$75,204 thousand in Unemployment, \$52,834 thousand in Employment Benefit, and \$41,833 thousand in Judgment Fund.

Nonfederal Other Liabilities:

Nonenvironmental Disposal Liability Disclosure.

The DON recognizes the nonenvironmental disposal liability for nuclear powered assets when the asset is initially placed in service. The nonenvironmental costs are included with the environmental disposal costs and reported in Note 14. However, the \$565,796 thousand reported is estimated nonenvironmental disposal liability for conventional military equipment.

Excess/Obsolete Structures (Line 2.H.2).

The reported amount of \$343,324 thousand is an estimate of disposing excess/obsolete structures at active installations.

Other Liabilities (Line 2.M.) includes \$126,306 thousand Contract Holdbacks, \$105,641 thousand Contract Incentives.

Reference

See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

NOTE 15.B. CAPITAL LEASE LIABILITY

As of September 30, <i>(Amounts in thousands)</i>	2004				2003
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due:					
A. Fiscal Year 2005	\$ 0	\$ 202	\$ 0	\$ 202	\$ 146
B. Fiscal Year 2006	0	0	0	0	0
C. Fiscal Year 2007	0	0	0	0	0
D. Fiscal Year 2008	0	0	0	0	0
E. Fiscal Year 2009	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 202	\$ 0	\$ 202	\$ 146
H. Less: Imputed Interest Executory Costs	0	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 202	\$ 0	\$ 202	\$ 146
2. Capital Lease Liabilities Covered by Budgetary Resources:				\$ 0	\$ 0
3. Capital Lease Liabilities Not Covered by Budgetary Resources:				\$ 202	\$ 146

4. Other Information Related to Capital Lease Liability:

Fluctuation and/or Abnormalities

The DON reported \$56 thousand, 38 percent, increase in Capital Lease Liability in FY 2004 compared with FY 2003. The increase is due to the migration of DON activities to DPAS in FY 2004. Prior to the use of DPAS by these activities, these individual capital lease liabilities were not reported.

Other Disclosures

The liabilities associated with capital leases are captured in legacy systems and are not consistently recorded in the accounting system. The DON has recognized a liability equal to the net value of the assets (i.e. gross value less accumulated amortization). The resulting liability was recorded as a payment due in FY 2004. The proper breakout of future payments to appropriate years will be done when a process for capturing lease liabilities is implemented.

Reference

See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

For regulatory discussion on Capital Lease Liability, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Information Related to Commitments and Contingencies

The Department of the Navy is a party in various administrative proceedings and legal actions which may ultimately result in settlements or decisions adverse to the Federal Government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. Others may be payable from the Department's resources, either directly or by reimbursement to the Judgment Fund. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the Department.

For fiscal years 2003 and 2004, the materiality threshold for reporting litigation, claims, or assessments was \$16.7 million and \$33.3 million, respectively. The amounts set forth above for civil and environmental litigation, claims, and assessments represent the aggregate of the amounts of claims, litigation or assessments considered to be significant for reporting purposes based on the established materiality thresholds. These amounts represent the maximum amounts of any potential liability of the Government based on the amounts claimed. Management does not consider it to be at all likely that the Government will be liable for such maximum amounts.

The DON reported a total of 29 cases in FY 2004 that met the materiality threshold. However, DON legal counsel is unable to express an opinion concerning the likely outcome of these cases.

Reference

See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

For regulatory discussion on Commitments and Contingencies, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1018.

NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

	2004				2003
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
As of September 30,					
<i>(Amount in Thousands)</i>					
1. Pension and Health Benefits:					
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0	\$ 0
2. Other					
A. FECA	\$ 1,575,815		\$ 0	\$ 1,575,815	\$ 1,589,971
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Educational Benefits Fund	0		0	0	0
D. Total Other	\$ 1,575,815		\$ 0	\$ 1,575,815	\$ 1,589,971
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 1,575,815		\$ 0	\$ 1,575,815	\$ 1,589,971

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Military Retirement Pensions.

The portion of the military retirement benefits actuarial liability applicable to the DON is reported on the financial statements of the Military Retirement Fund (MRF).

Military Retirement Health Benefits.

Health benefits are funded centrally at the DoD level. As such, the portion of the health benefits actuarial liability that is applicable to DON is reported only on the DoD Agency-wide financial statements.

Federal Employees Compensation Act (FECA).

Actuarial Cost Method Used and Assumptions:

The DON's actuarial liability for workers' compensation benefits is developed by DOL and provided to DON at the end of each fiscal year. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budgets economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

FY 2004

4.883 percent in Year 1

5.235 percent in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009+	2.40%	4.02%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

The estimate was allocated between General Fund and Navy Working Capital Fund using a percentage based on the number of civilian employees taken from the Navy Budget Tracking System. The following table, as of March 31, 2004, details the numbers used in support of the allocation:

	<u>Personnel</u>	<u>Allocation %</u>
DON General Fund	111,166	57%
Navy Working Capital Fund	82,712	43%
Total	<u>193,878</u>	<u>100%</u>

Voluntary Separation Incentive (VSI) Program.

The Voluntary Separation Incentive (VSI) Fund (recorded on the books of the Department of the Treasury) is used to accumulate funds to finance, on an actuarially sound basis, the liabilities DoD incurred under this program. The VSI benefit is an annual annuity paid to members who have separated under this program, and is paid for a period of time equal to twice the members' years of service.

DoD Education Benefits Fund.

The DoD Education Benefits Fund is designed to accumulate funds for the educational programs described under Title 10 United States Code, section 2006. This program promotes the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces and aids in the readjustment of members of the Armed Forces to civilian life after separation from military service.

Reference

For regulatory discussion on Military Retirement Benefits and Other Employee Related Actuarial Liabilities, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1019.

NOTE 18. UNEXPENDED APPROPRIATIONS

As of September 30,	2004	2003
<i>(Amounts in thousands)</i>		
1. Unexpended Appropriations:		
A. Unobligated, Available	\$ 12,741,747	\$ 28,083,485
B. Unobligated, Unavailable	4,054,888	998,235
C. Unexpended Obligations	62,365,139	47,613,208
D. Total Unexpended Appropriations	<u>\$ 79,161,774</u>	<u>\$ 76,694,928</u>

2. Other Information Pertaining to Unexpended Appropriations:

Fluctuation and/or Abnormalities

The Unobligated, Available and the Unexpended Obligations lines for FY 2004 when compared with FY 2003 does not provide for a meaningful comparison. Due to a prior period adjustment and the restatement of the FY 2003 column, it is not practical to compare FY 2004 to FY 2003 for these lines. The DON reported an increase of \$3,056,653 thousand, 306 percent in Unobligated, Unavailable (Line 1B) in FY 2004 when compared with FY 2003. The reason for the significant increase in Unobligated, Unavailable is a result of receipt of supplemental appropriations (Title IX of the FY 2005 DoD Appropriations Act (P.L. 108-287)) that provided for FY 2004/FY 2005 additional funding.

Other Disclosures

Unobligated, Unavailable includes annual funds that are subject to the quarterly apportionment rule. They will become available in subsequent periods as they are apportioned. The amounts below reflect supplemental appropriations that will be made available in FY 2005. Below is a summary of funds subject to subsequent period apportionment:

Apportioned, Subsequent Periods: (Amounts in thousands)	Unobligated, Unavailable Funds
Military Personnel	\$269,400
Operations and Maintenance	2,032,000
Procurement	61,800
Total	\$2,363,200
Expired Years Authority	1,691,688
Unobligated, Unavailable	\$4,054,888

NOTE 19.A GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Fluctuation and/or Abnormalities

The DON reported an increase of \$18,237,710 thousand, 16 percent, in the Net Cost of Operations in FY 2004 when compared to FY 2003. The Procurement area showed a fluctuation in FY 2004 when compared with FY 2003 of \$14,808,038 thousand, 86 percent, and Military Construction costs increased by \$7,053,236 thousand, 653 percent. On a comparative basis, the major factor affecting the Procurement area was the FY 2003 capitalization of Military Equipment that reduced operating expenses by \$20,440,000 thousand in FY 2003. The major factor affecting the Military Construction area was a correction to depreciation expense in FY 2004 related to Real Property and associated Capitalized Improvements. See Note 10 for a further explanation of the depreciation change.

Intragovernmental Gross Costs increased by \$4,029,146 thousand, 11 percent, in FY 2004 when compared to FY 2003 with an increase in Intragovernmental Earned Revenue of \$85,892 thousand, 3 percent.

Intragovernmental Gross Costs are adjusted for trading partner submissions at the Component level, as trading partner submissions for payables and expense do not identify the DON Appropriations or associated Programs. The increase in Intragovernmental Earned Revenue is spread over several governmental agencies with these increases offset by immaterial decreases with several of the agencies. Significant increases in Intragovernmental Revenue were \$917,991 thousand with Navy Working Capital Fund and \$67,732 thousand with Air Force General Fund.

Similarly, Gross Costs with the Public increased \$15,677,468 thousand, 19 percent, in FY 2004 when compared with FY 2003 and is coupled with an increase in Earned Revenue from the Public of \$1,383,012 thousand, 72 percent. The increase in Gross Costs with the Public is a result of an increase in depreciation costs as a result of recognizing Military Equipment in FY 2003 and continuing into FY 2004 and an increase in depreciation costs for buildings, structures, and utilities resulting from changes to the depreciation module of Internet Naval Facility Association Database Store (iNFADS). These cost increases are explained in detail in Note 10.

A factor that impacted the increase on DON's Earned Revenue from the Public was the re-mapping of USSGL 7190 (Other Gains) to Earned Revenue from the Public.

Other Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The DON generally records transactions on a cash basis and not an accrual basis as is required by Federal GAAP. Therefore, the DON systems do not consistently capture actual costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems; then adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

NOTE 19.C. GROSS COST TO GENERATE INTRAGOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL—NON-DoD—ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

NOTE 19.D. IMPUTED EXPENSES

As of September 30,	2004	2003
<i>(Amount in thousands)</i>		
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 247,413	\$ 231,585
2. Civilian Health	296,631	232,822
3. Civilian Life Insurance	1,020	904
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	40,145	44,408
7. Total Imputed Expenses	<u>\$ 585,209</u>	<u>\$ 509,719</u>

8. Other Information Related to Imputed Expense:

The DON financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

NOTE 19.E. BENEFIT PROGRAM EXPENSES

Not Applicable.

NOTE 19. F. EXCHANGE REVENUE

Not Applicable.

**NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM
PROCUREMENTS FROM CONTRACTORS**

Not Applicable.

NOTE 19.H. STEWARDSHIP ASSETS

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost.

NOTE 19.I. INTRAGOVERNMENTAL REVENUE AND EXPENSE

The majority of DON accounting systems do not consistently capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental revenue balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources.

NOTE 19.J. SUBORGANIZATION PROGRAM COSTS

Not Applicable.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

		Cumulative Results of Operations 2004	Unexpended Appropriations 2004	Cumulative Results of Operations 2003	Unexpended Appropriations 2003			
As of September 30,								
(Amounts in thousands)								
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:								
A. Changes in Accounting Standards	\$	0	\$	0	\$	152,557,286	\$	0
B. Errors and Omissions in Prior Year		(25,913,750)		25,913,750		0		0
C. Other Prior Period Adjustments		0		0		0		0
D. Total Prior Period Adjustments	\$	(25,913,750)	\$	25,913,750	\$	152,557,286	\$	0
2. Imputed Financing:								
A. Civilian CSRS/FERS Retirement	\$	247,413	\$	0	\$	231,585	\$	0
B. Civilian Health		296,631		0		232,822		0
C. Civilian Life Insurance		1,020		0		904		0
D. Military Retirement Pension		0		0		0		0
E. Military Retirement Health		0		0		0		0
F. Judgment Fund		40,145		0		44,408		0
G. Total Imputed Financing	\$	585,209	\$	0	\$	509,719	\$	0

3. Other Information:

Other Disclosures

Errors and Omissions in Prior Year Accounting Reports.

Two prior period adjustments were recorded to the DON financial statements and were recognized as errors and omissions per Statement of Federal Financial Accounting Standards (SFFAS) No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." The errors occurred in the 4th Quarter FY 2003 financial statements. The overall impact of the prior period adjustments warrants the restatement of the FY 2004 DON financial statements for comparative purposes. These adjustments will affect the following financial statements for restatement in the fourth quarter: Balance Sheet (Net Position section) and the Statement of Changes in Net Position. The prior period adjustments were categorized as follows:

	Cumulative Results of Operations	Unexpended Appropriations
Error in reporting Appropriations Used	(\$25,913,750)	\$25,913,750

The errors involved the inclusion of disbursement and collection amounts in Appropriations Used, accounts (USSGL 3107 and USSGL 5700) both of which are mapped to the Statement of Changes in Net Position: 3107 to Unexpended Appropriations, and 5700 to Cumulative Results of Operations.

Imputed Financing.

The DON financial statements have recognized an imputed financing source for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed financing sources for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

Judgment Fund.

Treasury provided information related to amounts paid for Judgment Fund liabilities under the Contracts Dispute Act and the Notification of Federal Antidiscrimination and Retaliatory Act (No FEAR Act) on behalf of the DON, which the DON is required to repay. Judgment Fund payments made out of the following Treasury appropriations do not require reimbursement and therefore represent imputed financing to the DON: 20X1740 and 20X1742. Only those payments made from Treasury appropriation 20X1743, and that portion of 20X1741 that is related to the No FEAR Act are required to be repaid by DON.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30, (Amounts in thousands)	2004	2003
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 63,059,730	\$ 64,855,940
2. Available Borrowing and Contract Authority at the End of the Period	0	739

3. Other Information Related to the Statement of Budgetary Resources:

The Net Amount of Budgetary Resources Obligated for Undelivered Orders in this note only represents USSGL 4801, Undelivered Orders – Obligations, Unpaid. However, the amount represented on the Statement of Budgetary Resources, line 14 C not only includes USSGL 4801, Undelivered Orders – Obligations, Unpaid but also USSGL 4802, Undelivered Orders – Obligations, Prepaid/Advanced.

The difference of \$30,494 thousand between the SBR Appropriations Received when compared with the Statement of Change of Net Position (SOCNP) Appropriations Received is due to the Trust Funds not being included in the Appropriations Received line of the SOCNP.

Other Disclosures

Obligations Incurred includes \$132,268,522 thousand Direct Obligations and \$8,886,330 thousand Reimbursable Obligations.

Included in the DON FY 2004 Statement of Budgetary Resources is a \$448,000 thousand transaction from the Navy Working Capital Fund (NWCF). This transaction was recorded using a Voucher For Transfers Between Appropriations and/or Funds (SF1080) and is not reflected as a part of Net Transfers on the Statement of Budgetary Resources. The SF1080 transaction with the NWCF was made in accordance with the Department of the Navy's FY 2004 President's Budget.

Due to accounting system deficiencies, intragovernmental transactions were not eliminated for the presentation of a Consolidated Statement of Budgetary Resources (SBR).

In FY 2004, DoD treated Foreign Military Sales (FMS) Trust Fund transactions as nonfederal, and were presented as such in the Balance Sheet (BS) and the Statement of Net Cost. Accounts Receivable and Revenues related to FMS are recognized in the SBR. Therefore, reconciling differences exist between the SBR and the BS. OUSD(C) Accounting Policy is currently researching the issue to determine the proper treatment of FMS Trust Fund transactions to ensure proper reporting.

DON has two permanent, indefinite appropriations.

National Defense Sealift Fund:

The National Defense Sealift Fund (NDSF) is operated under the authority of 10 U.S. Code 2218, which provides for the construction (including design of vessels), purchase, alteration, and conversion of Department of Defense (DOD) sealift vessels; operation, maintenance, and lease or charter of DOD vessels for national defense purposes; installation and maintenance of defense features for national defense purposes on privately owned and operated vessels that are constructed in the United States and documented under the laws of the United States; research and development relating to national defense sealift; and expenses for maintaining the National Defense Reserve Fleet (NDRF) including the acquisition, alteration or conversion of vessels built in U.S. shipyards for the NDRF. In FY 2004, \$5,000 thousand was transferred from the NDSF to the Military Personnel, Marine Corps appropriation.

Environmental Restoration, Navy:

Environmental Restoration, Navy (ER, N) is a transfer account that funds environmental restoration, reduction and recycling of hazardous waste, removal of unsafe buildings and debris, and similar purposes. Funds are to remain available until transferred, and remain available for the same purpose and same time period as the appropriations to which transferred. In FY 2004, \$254,929 thousand was transferred from ER, N to the Operations and Maintenance, Navy appropriation.

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Fluctuation and/or Abnormalities

Budgetary data is not in agreement with proprietary expenses and assets capitalized. This fact causes a difference in net cost between the Statement of Net Cost and the Statement of Financing. Adjustments are posted to the Statement of Financing for these differences.

Other Disclosures

The increase of resources that finance the acquisition of assets is primarily due to the implementation of SFFAS No. 23 "Eliminating the Category of National Defense Property, Plant, and Equipment." Correspondingly, there is also an increase in the reported depreciation for the military equipment.

The Statement of Financing is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. Adjustments in funds which are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or on the Statement of Financing.

The Statement of Financing was expanded to further articulate and detail the relationship between new obligations from budgetary accounting and net cost of operations from proprietary accounting.

NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Not Applicable

NOTE 24.A. OTHER DISCLOSURES

1. Entity as Lessee - Operating Leases

As of September 30, (Amounts in thousands)	2004				2003
Future Payments Due: Fiscal Year	Land and Buildings	Equipment	Other	Total	Total
2005	\$ 59,965	\$ 0	\$ 0	\$ 59,965	\$ 15,596
2006	64,693	0	0	64,693	15,474
2007	66,276	0	0	66,276	17,469
2008	66,569	0	0	66,569	17,559
2009	66,861	0	0	66,861	17,571
After 5 Years	0	0	0	0	0
Total Future Lease Payments Due	\$ 324,364	\$ 0	\$ 0	\$ 324,364	\$ 83,669

Fluctuations and/of Abnormalities

The DON reported an increase of \$240,695 thousand, 288 percent, in Operating Leases Future Payment in FY 2004 when compared to FY 2003. The increase is due to better data collection efforts throughout the Navy shore establishment.

Definitions

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

Other Disclosure

The value for lease information is derived from the DON data collection process. This process only provides summary levels values at this time.

NOTE 24.B. OTHER DISCLOSURES

Not Applicable.



DEPARTMENT OF THE NAVY

GENERAL FUND SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense
Department of the Navy
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 75,047,363	\$ 6,827,455
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	219,095	0
Investments (Note 4)	9,457	0
Accounts Receivable (Note 5)	211,008	59,418
Other Assets (Note 6)	269,589	3,134
Total Intragovernmental Assets	<u>\$ 75,756,512</u>	<u>\$ 6,890,007</u>
 Cash and Other Monetary Assets (Note 7)	 \$ 126,338	 \$ 108,527
Accounts Receivable (Note 5)	2,885,043	10,923
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	52,862,678	477,989
General Property, Plant and Equipment (Note 10)	148,266,586	3,412,917
Investments (Note 4)	0	0
Other Assets (Note 6)	4,824,249	176,099
TOTAL ASSETS	<u><u>\$ 284,721,406</u></u>	<u><u>\$ 11,076,462</u></u>
 LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 1,303,589	\$ 153,750
Debt (Note 13)	0	0
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	3,784,884	199,918
Total Intragovernmental Liabilities	<u>\$ 5,088,473</u>	<u>\$ 353,668</u>
 Accounts Payable (Note 12)	 \$ 1,016,008	 \$ 379,000
Military Retirement Benefits and Other Employment-Related		
Actuarial Liabilities (Note 17)	1,359,036	216,779
Environmental Liabilities (Note 14)	16,031,979	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	3,488,967	531,859
Debt Held by Public	0	0
TOTAL LIABILITIES	<u><u>\$ 26,984,463</u></u>	<u><u>\$ 1,481,306</u></u>
 NET POSITION		
Unexpended Appropriations (Note 18)	\$ 72,627,291	\$ 6,534,483
Cumulative Results of Operations	185,109,652	3,060,673
TOTAL NET POSITION	<u><u>\$ 257,736,943</u></u>	<u><u>\$ 9,595,156</u></u>
 TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 284,721,406</u></u>	<u><u>\$ 11,076,462</u></u>

Department of Defense
Department of the Navy
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(\$ in thousands)

	Combined Total	Eliminations	2004 Consolidated	2003 Consolidated Restated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	\$ 81,874,818	\$ 0	\$ 81,874,818	\$ 78,191,653
Non-Entity Seized Iraqi Cash	0	0	0	0
Non-Entity-Other	219,095	0	219,095	223,225
Investments (Note 4)	9,457	0	9,457	9,801
Accounts Receivable (Note 5)	270,426	19,723	250,703	496,863
Other Assets (Note 6)	272,723	0	272,723	187,865
Total Intragovernmental Assets	<u>\$ 82,646,519</u>	<u>\$ 19,723</u>	<u>\$ 82,626,796</u>	<u>\$ 79,109,407</u>
Cash and Other Monetary Assets (Note 7)	\$ 234,865	\$ 0	\$ 234,865	\$ 282,995
Accounts Receivable (Note 5)	2,895,966	0	2,895,966	3,382,133
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	53,340,667	0	53,340,667	53,611,634
General Property, Plant and Equipment (Note 10)	151,679,503	0	151,679,503	158,407,450
Investments (Note 4)	0	0	0	0
	<u>5,000,348</u>	<u>0</u>	<u>5,000,348</u>	<u>6,180,624</u>
TOTAL ASSETS	<u><u>\$ 295,797,868</u></u>	<u><u>\$ 19,723</u></u>	<u><u>\$ 295,778,145</u></u>	<u><u>\$ 300,974,243</u></u>
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 1,457,339	\$ 19,723	\$ 1,437,616	\$ 1,035,033
Debt (Note 13)	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	3,984,802	0	3,984,802	3,859,913
Total Intragovernmental Liabilities	<u>\$ 5,442,141</u>	<u>\$ 19,723</u>	<u>\$ 5,422,418</u>	<u>\$ 4,894,946</u>
Accounts Payable (Note 12)	\$ 1,395,008	\$ 0	\$ 1,395,008	\$ 1,742,522
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,575,815	0	1,575,815	1,589,971
Environmental Liabilities (Note 14)	16,031,979	0	16,031,979	15,614,424
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	4,020,826	0	4,020,826	3,785,962
Debt Held by Public	0	0	0	0
TOTAL LIABILITIES	<u><u>\$ 28,465,769</u></u>	<u><u>\$ 19,723</u></u>	<u><u>\$ 28,446,046</u></u>	<u><u>\$ 27,627,825</u></u>
NET POSITION				
Unexpended Appropriations (Note 18)	\$ 79,161,774	\$ 0	\$ 79,161,774	\$ 76,694,928
Cumulative Results of Operations	188,170,325	0	188,170,325	196,651,490
TOTAL NET POSITION	<u><u>\$ 267,332,099</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 267,332,099</u></u>	<u><u>\$ 273,346,418</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 295,797,868</u></u>	<u><u>\$ 19,723</u></u>	<u><u>\$ 295,778,145</u></u>	<u><u>\$ 300,974,243</u></u>

Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>
Program Costs		
Military Personnel		
Intragovernmental Gross Costs	\$ 5,157,236	\$ 2,241,253
(Less Intragovernmental Earned Revenue)	<u>(397,452)</u>	<u>(20,074)</u>
Intragovernmental Net Costs	\$ <u>4,759,784</u>	\$ <u>2,221,179</u>
Gross Costs With the Public	\$ 20,934,864	\$ 8,069,582
(Less: Earned Revenue From the Public)	<u>0</u>	<u>0</u>
Net Costs With the Public	\$ <u>20,934,864</u>	\$ <u>8,069,582</u>
Net Program Cost	\$ 25,694,648	\$ 10,290,761
Operations and Maintenance		
Intragovernmental Gross Costs	\$ 1,581,078	\$ 281,615
(Less Intragovernmental Earned Revenue)	<u>(4,774,111)</u>	<u>(392,144)</u>
Intragovernmental Net Costs	\$ <u>(3,193,033)</u>	\$ <u>(110,529)</u>
Gross Costs With the Public	\$ 38,784,464	\$ 5,345,293
(Less: Earned Revenue From the Public)	<u>(47,276)</u>	<u>0</u>
Net Costs With the Public	\$ <u>38,737,188</u>	\$ <u>5,345,293</u>
Net Program Cost	\$ 35,544,155	\$ 5,234,764
Procurement		
Intragovernmental Gross Costs	\$ 0	\$ 550
(Less Intragovernmental Earned Revenue)	<u>(765,188)</u>	<u>(2,035)</u>
Intragovernmental Net Costs	\$ <u>(765,188)</u>	\$ <u>(1,485)</u>
Gross Costs With the Public	\$ 30,116,666	\$ 2,983,589
(Less: Earned Revenue From the Public)	<u>0</u>	<u>(248,999)</u>
Net Costs With the Public	\$ <u>30,116,666</u>	\$ <u>2,734,590</u>
Net Program Cost	\$ 29,351,478	\$ 2,733,105
Research, Development, Test & Evaluation		
Intragovernmental Gross Costs	\$ 0	\$ 0
(Less Intragovernmental Earned Revenue)	<u>(307,534)</u>	<u>0</u>
Intragovernmental Net Costs	\$ <u>(307,534)</u>	\$ <u>0</u>
Gross Costs With the Public	\$ 14,466,658	\$ 0
(Less: Earned Revenue From the Public)	<u>0</u>	<u>0</u>
Net Costs With the Public	\$ <u>14,466,658</u>	\$ <u>0</u>
Net Program Cost	\$ 14,159,124	\$ 0

Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	<u>Combined Total</u>	<u>Eliminations</u>	<u>2004 Consolidated</u>	<u>2003 Consolidated</u>
Program Costs				
Military Personnel				
Intragovernmental Gross Costs	\$ 7,398,489	\$ 0	\$ 7,398,489	\$ 12,135,559
(Less Intragovernmental Earned Revenue)	<u>(417,526)</u>	<u>0</u>	<u>(417,526)</u>	<u>(69,149)</u>
Intragovernmental Net Costs	\$ <u>6,980,963</u>	\$ <u>0</u>	\$ <u>6,980,963</u>	\$ <u>12,066,410</u>
Gross Costs With the Public	\$ 29,004,446	\$ 0	\$ 29,004,446	\$ 24,509,847
(Less: Earned Revenue From the Public)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(281,482)</u>
Net Costs With the Public	\$ <u>29,004,446</u>	\$ <u>0</u>	\$ <u>29,004,446</u>	\$ <u>24,228,365</u>
Net Program Cost	\$ 35,985,409	\$ 0	\$ 35,985,409	\$ 36,294,775
Operations and Maintenance				
Intragovernmental Gross Costs	\$ 1,862,693	\$ 0	\$ 1,862,693	\$ 16,783,901
(Less Intragovernmental Earned Revenue)	<u>(5,166,255)</u>	<u>0</u>	<u>(5,166,255)</u>	<u>(2,605,019)</u>
Intragovernmental Net Costs	\$ <u>(3,303,562)</u>	\$ <u>0</u>	\$ <u>(3,303,562)</u>	\$ <u>14,178,882</u>
Gross Costs With the Public	\$ 44,129,757	\$ 0	\$ 44,129,757	\$ 28,690,542
(Less: Earned Revenue From the Public)	<u>(47,276)</u>	<u>0</u>	<u>(47,276)</u>	<u>(1,036,745)</u>
Net Costs With the Public	\$ <u>44,082,481</u>	\$ <u>0</u>	\$ <u>44,082,481</u>	\$ <u>27,653,797</u>
Net Program Cost	\$ 40,778,919	\$ 0	\$ 40,778,919	\$ 41,832,679
Procurement				
Intragovernmental Gross Costs	\$ 550	\$ 0	\$ 550	\$ 3,966,807
(Less Intragovernmental Earned Revenue)	<u>(767,223)</u>	<u>0</u>	<u>(767,223)</u>	<u>(886,640)</u>
Intragovernmental Net Costs	\$ <u>(766,673)</u>	\$ <u>0</u>	\$ <u>(766,673)</u>	\$ <u>3,080,167</u>
Gross Costs With the Public	\$ 33,100,255	\$ 0	\$ 33,100,255	\$ 14,507,061
(Less: Earned Revenue From the Public)	<u>(248,999)</u>	<u>0</u>	<u>(248,999)</u>	<u>(310,683)</u>
Net Costs With the Public	\$ <u>32,851,256</u>	\$ <u>0</u>	\$ <u>32,851,256</u>	\$ <u>14,196,378</u>
Net Program Cost	\$ 32,084,583	\$ 0	\$ 32,084,583	\$ 17,276,545
Research, Development, Test & Evaluation				
Intragovernmental Gross Costs	\$ 0	\$ 0	\$ 0	\$ 993,892
(Less Intragovernmental Earned Revenue)	<u>(307,534)</u>	<u>0</u>	<u>(307,534)</u>	<u>(237,506)</u>
Intragovernmental Net Costs	\$ <u>(307,534)</u>	\$ <u>0</u>	\$ <u>(307,534)</u>	\$ <u>756,386</u>
Gross Costs With the Public	\$ 14,466,658	\$ 0	\$ 14,466,658	\$ 11,418,578
(Less: Earned Revenue From the Public)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,122)</u>
Net Costs With the Public	\$ <u>14,466,658</u>	\$ <u>0</u>	\$ <u>14,466,658</u>	\$ <u>11,414,456</u>
Net Program Cost	\$ 14,159,124	\$ 0	\$ 14,159,124	\$ 12,170,842

Department of Defense
Navy Working Capital Fund
CONSOLIDATING STATEMENT OF NET COST
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	Navy	Marine Corps
	<u> </u>	<u> </u>
Program Costs		
Military Construction/Family Housing		
Intragovernmental Gross Costs	\$ 0	\$ 0
(Less Intragovernmental Earned Revenue)	<u>(741,184)</u>	<u>0</u>
Intragovernmental Net Costs	<u>\$ (741,184)</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 8,910,371	\$ 0
(Less: Earned Revenue From the Public)	<u>(35,329)</u>	<u>0</u>
Net Costs With the Public	<u>\$ 8,875,042</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 8,133,858</u>	<u>\$ 0</u>
Other		
Intragovernmental Gross Costs	\$ 27,763,610	\$ 2,364,592
(Less Intragovernmental Earned Revenue)	<u>3,714,298</u>	<u>194,350</u>
Intragovernmental Net Costs	<u>\$ 31,477,908</u>	<u>\$ 2,558,942</u>
Gross Costs With the Public	\$ (30,308,974)	\$ (2,456,262)
(Less: Earned Revenue From the Public)	<u>(2,863,533)</u>	<u>(107,571)</u>
Net Costs With the Public	<u>\$ (33,172,507)</u>	<u>\$ (2,563,833)</u>
Net Program Cost	<u>\$ (1,694,599)</u>	<u>\$ (4,891)</u>
Total Program Costs		
Intragovernmental Gross Costs	\$ 34,501,924	\$ 4,888,010
(Less Intragovernmental Earned Revenue)	<u>(3,271,171)</u>	<u>(219,903)</u>
Intragovernmental Net Costs	<u>\$ 31,230,753</u>	<u>\$ 4,668,107</u>
Gross Costs With the Public	\$ 82,904,049	\$ 13,942,202
(Less: Earned Revenue From the Public)	<u>(2,946,138)</u>	<u>(356,570)</u>
Net Costs With the Public	<u>\$ 79,957,911</u>	<u>\$ 13,585,632</u>
Net Program Cost	<u>\$ 111,188,664</u>	<u>\$ 18,253,739</u>
Costs Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	<u>0</u>	<u>0</u>
Net Cost of Operations	<u><u>\$ 111,188,664</u></u>	<u><u>\$ 18,253,739</u></u>

Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	<u>Combined Total</u>	<u>Eliminations</u>	<u>2004 Consolidated</u>	<u>2003 Consolidated</u>
Program Costs				
Military Construction/Family Housing				
Intragovernmental Gross Costs	\$ 0	\$ 0	\$ 0	\$ 204,387
(Less: Intragovernmental Earned Revenue)	<u>(741,184)</u>	<u>0</u>	<u>(741,184)</u>	<u>(124,381)</u>
Intragovernmental Net Costs	\$ <u>(741,184)</u>	\$ <u>0</u>	\$ <u>(741,184)</u>	\$ <u>80,006</u>
 Gross Costs With the Public	 \$ 8,910,371	 \$ 0	 \$ 8,910,371	 \$ 1,370,505
(Less: Earned Revenue From the Public)	<u>(35,329)</u>	<u>0</u>	<u>(35,329)</u>	<u>(369,889)</u>
Net Costs With the Public	\$ <u>8,875,042</u>	\$ <u>0</u>	\$ <u>8,875,042</u>	\$ <u>1,000,616</u>
Net Program Cost	\$ 8,133,858	\$ 0	\$ 8,133,858	\$ 1,080,622
 Other				
Intragovernmental Gross Costs	\$ 30,128,202	\$ 218,214	\$ 29,909,988	\$ 1,058,028
(Less: Intragovernmental Earned Revenue)	<u>3,908,648</u>	<u>(218,214)</u>	<u>4,126,862</u>	<u>735,727</u>
Intragovernmental Net Costs	\$ <u>34,036,850</u>	\$ <u>0</u>	\$ <u>34,036,850</u>	\$ <u>1,793,755</u>
 Gross Costs With the Public	 \$ (32,765,236)	 \$ 0	 \$ (32,765,236)	 \$ 672,250
(Less: Earned Revenue From the Public)	<u>(2,971,104)</u>	<u>0</u>	<u>(2,971,104)</u>	<u>83,225</u>
Net Costs With the Public	\$ <u>(35,736,340)</u>	\$ <u>0</u>	\$ <u>(35,736,340)</u>	\$ <u>755,475</u>
Net Program Cost	\$ (1,699,490)	\$ 0	\$ (1,699,490)	\$ 2,549,230
 Total Program Costs				
Intragovernmental Gross Costs	\$ 39,389,934	\$ 218,214	\$ 39,171,720	\$ 35,142,574
(Less: Intragovernmental Earned Revenue)	<u>(3,491,074)</u>	<u>(218,214)</u>	<u>(3,272,860)</u>	<u>(3,186,968)</u>
Intragovernmental Net Costs	\$ <u>35,898,860</u>	\$ <u>0</u>	\$ <u>35,898,860</u>	\$ <u>31,955,606</u>
 Gross Costs With the Public	 \$ 96,846,251	 \$ 0	 \$ 96,846,251	 \$ 81,168,783
(Less: Earned Revenue From the Public)	<u>(3,302,708)</u>	<u>0</u>	<u>(3,302,708)</u>	<u>(1,919,696)</u>
Net Costs With the Public	\$ <u>93,543,543</u>	\$ <u>0</u>	\$ <u>93,543,543</u>	\$ <u>79,249,087</u>
Net Program Cost	\$ 129,442,403	\$ 0	\$ 129,442,403	\$ 111,204,693
Costs Not Assigned to Programs	0	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Cost of Operations	\$ <u><u>129,442,403</u></u>	\$ <u><u>0</u></u>	\$ <u><u>129,442,403</u></u>	\$ <u><u>111,204,693</u></u>

Department of Defense
Department of the Navy

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2004 and 2003

(\$ in thousands)

	Navy	Marine Corps
Cumulative Results of Operations		
Beginning Balances	\$ 217,746,444	\$ 4,818,795
Prior period adjustments (+/-)		
Prior Period Adjustments- Restated (+/-)	(25,913,750)	0
Beginning Balance- Restated	\$ 191,832,694	\$ 4,818,795
Prior Period Adjustments- Not Restated (+/-)	0	0
Beginning Balances, as adjusted	\$ 191,832,694	\$ 4,818,795
Budgetary Financing Sources:		
Appropriations Received	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	103,759,488	16,438,659
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	166,000	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	16,775	(4,892)
Imputed financing from costs absorbed by others	523,359	61,850
Other (+/-)	0	0
Total Financing Sources	\$ 104,465,622	\$ 16,495,617
Net Cost of Operations (+/-)	\$ 111,188,664	\$ 18,253,739
Ending Balances	\$ 185,109,652	\$ 3,060,673
Unexpended Appropriations		
Beginning Balances	\$ 46,963,736	\$ 3,817,443
Prior period adjustments (+/-)		
Prior Period Adjustments- Restated (+/-)	25,913,750	0
Beginning Balance- Restated	\$ 72,877,486	\$ 3,817,443
Prior Period Adjustments- Not Restated (+/-)	0	0
Beginning Balances, as adjusted	\$ 72,877,486	\$ 3,817,443
Budgetary Financing Sources:		
Appropriations Received	\$ 105,443,972	\$ 18,474,011
Appropriations transferred in/out (+/-)	(327,024)	782,083
Other adjustments (rescissions, etc) (+/-)	(1,607,655)	(100,395)
Appropriations used	(103,759,488)	(16,438,659)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	\$ (250,195)	\$ 2,717,040
Net Cost of Operations (+/-)	\$ 0	\$ 0
Ending Balances	\$ 72,627,291	\$ 6,534,483

Department of Defense
Department of the Navy

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2004 and 2003

(\$ in thousands)

	Combined Total	Eliminations	2004 Consolidated	2003 Consolidated Restated
Cumulative Results of Operations				
Beginning Balances	\$ 222,565,239	\$ 0	\$ 222,565,239	\$ 44,169,672
Prior period adjustments (+/-)				
Prior Period Adjustments- Restated (+/-)	\$ (25,913,750)	\$ 0	\$ (25,913,750)	\$ 0
Beginning Balance- Restated	196,651,489	0	196,651,489	44,169,672
Prior Period Adjustments- Not Restated (+/-)	0	0	0	152,557,286
Beginning Balances, as adjusted	<u>\$ 196,651,489</u>	<u>\$ 0</u>	<u>\$ 196,651,489</u>	<u>\$ 196,726,958</u>
Budgetary Financing Sources:				
Appropriations Received	\$ 0	\$ 0	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	120,198,147	0	120,198,147	110,567,740
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	166,000	0	166,000	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	11,883	0	11,883	51,765
Imputed financing from costs absorbed by others	585,209	0	585,209	509,719
Other (+/-)	0	0	0	0
Total Financing Sources	<u>\$ 120,961,239</u>	<u>\$ 0</u>	<u>\$ 120,961,239</u>	<u>\$ 111,129,224</u>
Net Cost of Operations (+/-)	<u>\$ 129,442,403</u>	<u>\$ 0</u>	<u>\$ 129,442,403</u>	<u>\$ 111,204,693</u>
Ending Balances	<u><u>\$ 188,170,325</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 188,170,325</u></u>	<u><u>\$ 196,651,489</u></u>
Unexpended Appropriations				
Beginning Balances	\$ 50,781,179	\$ 0	\$ 50,781,179	\$ 64,774,328
Prior period adjustments (+/-)				
Prior Period Adjustments- Restated (+/-)	25,913,750	0	25,913,750	0
Beginning Balance- Restated	\$ 76,694,929	\$ 0	\$ 76,694,929	\$ 0
Prior Period Adjustments- Not Restated (+/-)	0	0	0	0
Beginning Balances, as adjusted	<u>\$ 76,694,929</u>	<u>\$ 0</u>	<u>\$ 76,694,929</u>	<u>\$ 64,774,328</u>
Budgetary Financing Sources:				
Appropriations Received	\$ 123,917,983	\$ 0	\$ 123,917,983	\$ 122,132,688
Appropriations transferred in/out (+/-)	455,059	0	455,059	1,810,288
Other adjustments (rescissions, etc) (+/-)	(1,708,050)	0	(1,708,050)	(1,454,635)
Appropriations used	(120,198,147)	0	(120,198,147)	(110,567,740)
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	<u>\$ 2,466,845</u>	<u>\$ 0</u>	<u>\$ 2,466,845</u>	<u>\$ 11,920,601</u>
Net Cost of Operations (+/-)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending Balances	<u><u>\$ 79,161,774</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 79,161,774</u></u>	<u><u>\$ 76,694,929</u></u>

Department of Defense
Department of the Navy
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(\$ in thousands)

BUDGETARY FINANCING ACCOUNTS

	<u>Navy</u>	<u>Marine Corps</u>	<u>2004 Combined</u>	<u>2003 Combined</u>
BUDGETARY RESOURCES				
Budget Authority:				
Appropriations Received	\$ 105,474,466	\$ 18,474,011	\$ 123,948,477	\$ 122,169,428
Borrowing Authority	0	0	0	0
Contract Authority	0	0	0	739
Net transfers (+/-)	(252,259)	677,368	425,109	1,662,142
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	14,108,219	587,019	14,695,238	11,908,983
Net transfers, actual (+/-)	91,235	104,715	195,950	145,546
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	7,327,335	379,315	7,706,650	6,792,556
Receivable from Federal sources	(395,222)	34,938	(360,284)	(1,211,532)
Change in unfilled customer orders				
Advances received	56,010	0	56,010	(59,842)
Without advance from Federal sources	457,066	10,440	467,506	308,282
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	\$ 7,445,189	\$ 424,693	\$ 7,869,882	\$ 5,829,464
Recoveries of prior year obligations	\$ 6,708,443	\$ 7,048,538	\$ 13,756,981	\$ 7,009,339
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(1,608,394)	(100,395)	(1,708,789)	(1,452,574)
Total Budgetary Resources	<u>\$ 131,966,899</u>	<u>\$ 27,215,949</u>	<u>\$ 159,182,848</u>	<u>\$ 147,273,067</u>

Department of Defense
Department of the Navy
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(\$ in thousands)

BUDGETARY FINANCING ACCOUNTS

	<u>Navy</u>	<u>Marine Corps</u>	<u>2004 Combined</u>	<u>2003 Combined</u>
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	\$ 108,067,166	\$ 24,201,356	\$ 132,268,522	\$ 124,497,950
Reimbursable	8,332,062	554,268	8,886,330	8,079,881
Subtotal	<u>\$ 116,399,228</u>	<u>\$ 24,755,624</u>	<u>\$ 141,154,852</u>	<u>\$ 132,577,831</u>
Unobligated balance:				
Apportioned	\$ 13,683,673	\$ 289,435	\$ 13,973,108	\$ 13,697,001
Exempt from apportionment	0	0	0	0
Other available	0	0	0	0
Unobligated Balances Not Available	<u>1,883,998</u>	<u>2,170,890</u>	<u>4,054,888</u>	<u>998,235</u>
Total, Status of Budgetary Resources	<u><u>\$ 131,966,899</u></u>	<u><u>\$ 27,215,949</u></u>	<u><u>\$ 159,182,848</u></u>	<u><u>\$ 147,273,067</u></u>

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:

Obligated Balance, Net-beginning of period	\$ 59,338,256	\$ 4,182,638	\$ 63,520,894	\$ 56,100,186
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	(440,504)	(97,056)	(537,560)	(897,842)
Unfilled customer order from Federal sources	(2,672,247)	(130,735)	(2,802,982)	(2,335,476)
Undelivered Orders	59,698,095	4,025,660	63,723,755	63,419,000
Accounts Payable	2,903,749	569,261	3,473,010	3,335,212
Outlays:				
Disbursements	109,478,103	17,477,216	126,955,319	119,051,033
Collections	(7,383,345)	(379,315)	(7,762,660)	(6,732,714)
Subtotal	<u>\$ 102,094,758</u>	<u>\$ 17,097,901</u>	<u>\$ 119,192,659</u>	<u>\$ 112,318,319</u>
Less: Offsetting receipts	<u>\$ (115,027)</u>	<u>\$ 0</u>	<u>\$ (115,027)</u>	<u>\$ (246,802)</u>
Net Outlays	<u><u>\$ 101,979,731</u></u>	<u><u>\$ 17,097,901</u></u>	<u><u>\$ 119,077,632</u></u>	<u><u>\$ 112,071,517</u></u>

Department of Defense

Department of the Navy

COMBINING STATEMENT OF FINANCING

For the years ended September 30, 2004 and 2003

(\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2004 Combined</u>	<u>2003 Combined</u>
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations Incurred	\$ 116,399,228	\$ 24,755,624	\$ 141,154,852	\$ 132,577,831
Less: Spending Authority from offsetting collections and recoveries (-)	<u>(14,153,633)</u>	<u>(7,473,232)</u>	<u>(21,626,865)</u>	<u>(12,838,803)</u>
Obligations net of offsetting collections and recoveries	\$ 102,245,595	\$ 17,282,392	\$ 119,527,987	\$ 119,739,028
Less: Offsetting receipts (-)	<u>(115,027)</u>	<u>0</u>	<u>(115,027)</u>	<u>(246,802)</u>
Net obligations	\$ 102,130,568	\$ 17,282,392	\$ 119,412,960	\$ 119,492,226
Other Resources				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	16,775	(4,892)	11,883	51,765
Imputed financing from costs absorbed by others	523,359	61,850	585,209	509,719
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net other resources used to finance activities	\$ 540,134	\$ 56,958	\$ 597,092	\$ 561,484
Total resources used to finance activities	<u>\$ 102,670,702</u>	<u>\$ 17,339,350</u>	<u>\$ 120,010,052</u>	<u>\$ 120,053,710</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	\$ 2,650,383	\$ (854,173)	\$ 1,796,210	\$ (3,213,420)
Unfilled Customer Orders	513,076	10,440	523,516	248,440
Resources that fund expenses recognized in prior periods	(104,796)	(10,326)	(115,122)	(31,284)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0	0
Resources that finance the acquisition of assets	(12,412,218)	0	(12,412,218)	(26,444,222)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations				
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0	0
Other (+/-)	<u>(16,775)</u>	<u>4,892</u>	<u>(11,883)</u>	<u>0</u>
Total resources used to finance items not part of the Net Cost of Operations	<u>\$ (9,370,330)</u>	<u>\$ (849,167)</u>	<u>\$ (10,219,497)</u>	<u>\$ (29,440,486)</u>
Total resources used to finance the Net Cost of Operations	<u>\$ 93,300,372</u>	<u>\$ 16,490,183</u>	<u>\$ 109,790,555</u>	<u>\$ 90,613,224</u>

Department of Defense
Department of the Navy
COMBINING STATEMENT OF FINANCING
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>2004 Combined</u>	<u>2003 Combined</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods:				
Increase in annual leave liability	\$ 188,260	\$ 0	\$ 188,260	\$ 0
Increase in environmental and disposal liability	427,489	0	427,489	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0	0
Other (+/-)	10,245	182,998	193,243	428,344
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ 625,994	\$ 182,998	\$ 808,992	\$ 428,344
Components not Requiring or Generating Resources:				
Depreciation and amortization	\$ 15,721,991	\$ 1,753,871	\$ 17,475,862	\$ 16,936,476
Revaluation of assets and liabilities (+/-)	1,367,930	(253,890)	1,114,040	3,203,729
Other (+/-)				
Trust Fund Exchange Revenue	(30,297)	0	(30,297)	0
Cost of Goods Sold	0	0	0	0
Operating Materials and Supplies Used	234,481	36,486	270,967	0
Other	(31,808)	44,092	12,284	22,920
Total components of Net Cost of Operations that will not require or generate resources	\$ 17,262,297	\$ 1,580,559	\$ 18,842,856	\$ 20,163,125
Total components of Net Cost of Operations that will not require or generate resources in the current period	\$ 17,888,291	\$ 1,763,557	\$ 19,651,848	\$ 20,591,469
Net Cost of Operations	\$ 111,188,663	\$ 18,253,740	\$ 129,442,403	\$ 111,204,693



DEPARTMENT OF THE NAVY

GENERAL FUND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

MILITARY EQUIPMENT

Narrative Statement

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond, and encouraged early implementation. Therefore, RSSI reporting of military equipment has been terminated.

HERITAGE ASSETS

For Fiscal Year Ended September 30, 2004

(a)	(b) Measurement Quantity	(c) As of 10/01/03	(d) Additions	(e) Deletions	(f) As of 9/30/04
Museums	Each	27	0	0	27
Monuments & Memorials	Each	511	37	26	522
Cemeteries	Sites	58	1	0	59
Archeological Sites	Sites	23,262	0	0	23,262
Buildings and Structures	Each	9,092	0	0	9,092
Major Collections (See Supplemental Reporting)	Each				

Narrative Statement

The Department of the Navy (DON) is required to report Heritage Assets in accordance with the following public laws:

- 10 USC 2721
- USC 483(b)
- Antiquities Act of 1906
- Historic Sites Act of 1935
- USC 470 National Historic Preservation Act of 1966
- National Environmental Policy Act of 1969
- American Indian Religious Freedom Act of 1978
- Archeological Resources Protection Act of 1979
- Native American Graves Protection & Repatriation Act of 1990
- Presidential Memorandum for Heads of Executive Departments and Agencies: Government to Government Relations with Native American Tribal Governments Act of 1994
- 36 CFR 79 - Curation of Federally Owned and Administered Archeological Collections

In general, the DON defines Heritage Assets as items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance, or significant architectural characteristics.

Explanation for adjustments, additions, and deletions.

In FY 2004 adjustments to museums, cemeteries and monuments were made to reflect assets acquired in prior years that were not previously reported.

Accurate inventory data for archaeological artifacts, archaeological sites, and buildings and structures are pending full implementation of tracking systems, notably iNFADS and DONHAMS, and related use of historic property data elements for buildings and structures.

Process used to define assets as Heritage Assets. The processes used to define items as having heritage significance varies between categories and type of assets being evaluated. Subject matter experts, including historians and curators, play a significant role in the definition process in addition to other criteria such as listing on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

Multi-Use Heritage Assets. Per DoD FMR Volume 6B, Multi-Use Heritage Assets are reported both as Heritage Assets on the RSSI and on the Balance Sheet.

Information Pertaining to the Condition of DON Heritage Assets. The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to the DON collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value.

Monuments and Memorials

Monuments and Memorials have significant monetary and/or historical value to the DON.

Cemeteries

Cemeteries are government owned burial grounds of which gravesites of prominent historical figures are located.

Archeological Sites

Archeological Sites are lands on which items of significance are located.

Buildings and Structures

Buildings and Structures are listed on or determined eligible for listing on the National Register of Historic Places, including Multi-use Heritage Assets. Criteria for evaluating National Register eligibility of these sites may be referenced at 36 CFR 60.4.

Supplemental Reporting. In addition to the data presented in the table above, the following supplemental information was reported as of 9/30/04:

Category	Measurement Quantity	As of 10/01/03	Additions	Deletions	As of 9/30/04
Archeological Artifacts	Cubic Feet	13,749	0	0	13,749
Archival	Linear Feet	96,222	751	2,757	94,216
Artwork	Item	37,380	567	0	37,947
Historical Artifacts	Item	1,114,407	10,712	2	1,125,117

Archival

The FY 2003 ending balance was adjusted downward by 30,404 resulting in an FY 2004 beginning balance of 96,222. This adjustment reflects the correction of an error in the prior reporting period.

STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2004

(Acres in Thousands)

(a) Land Use	(b) As of 10/01/03	(c) Additions	(d) Deletions	(e) As of 9/30/04
1. Mission	2,021	5	0	2,026
2. Parks & Historic Sites	0	0	0	0
Totals	2,021	5	0	2,026

Narrative Statement

The DON followed the definition of Stewardship Land per DoD Guidance to include Public Domain, Land Set Aside, and Donated Land. The iNFADS was used to derive acres for Stewardship Land. Within the definition of Stewardship Land, land can be further defined as improved, semi-improved and other categories of land.

NON-FEDERAL PHYSICAL PROPERTY

The Department of the Navy does not fund this type of Activity.

INVESTMENTS IN RESEARCH AND DEVELOPMENT

For Fiscal Years 2000 through 2004

(In Millions of Dollars)

(a) Categories	(b) FY00	(c) FY01	(d) FY02	(e) FY03	(f) FY04
1. Basic Research	\$345	\$383	\$378	\$399	\$431
2. Applied Research	538	597	647	743	686
3. Development					
Advanced Technology Development	607	738	779	836	967
Advanced Component Development And Prototypes	2,216	2,418	2,415	2,536	2,361
System Development and Demonstration	2,225	2,086	2,836	4,200	6,115
Research, Development, Test, and Evaluation					
Management Support	750	782	838	797	906
Operational Systems Development	2,047	2,266	2,417	2,385	1,820
Total	\$8,728	\$9,270	\$10,310	\$11,896	\$13,286

Narrative Statement

Investments in Research and Development

Investment values included in this Report are based on Research and Development (R&D) outlays (expenditures). Outlays are used because current DON systems are unable to fully capture and summarize costs in accordance with FASAB standards.

A. Basic Research

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

The following are two representative program examples for the Basic Research category.

Converting Waste Heat Into Electricity

The excess heat produced in everything from microelectronics to large ship engines is generally thought of as a problem for engineers to solve. A new scientific leap discovered in semiconductor technology funded by the Office of Naval Research could put that troublesome heat to good use. Funded through a Multi-University Research Initiative (MURI), a Michigan State group has developed a fundamental understanding of the chemical properties needed to create the ideal material with high electrical conductivity but low thermal conductivity. The group has found the right combination of ultrapure lead, antimony, silver, and tellurium for a material (called LAST) that is significantly more efficient for high temperature power generation than existing thermoelectric materials. The secret to the new material's efficiency seems to be in the nanostructures within it that impede the flow of heat by introducing internal boundaries.

NOAA and U.S. Navy Uncover Secrets of Lost Civil War Submarine USS Alligator

The U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and the U.S. Navy's Office of Naval Research (ONR) have joined forces to uncover the secrets of a technological marvel of the Civil War era akin to the USS *Monitor* and the CSS *Hunley*: the USS *Alligator*. Launched in 1862, the *Alligator* was the U.S. Navy's first submarine. While the vessel represented a significant leap forward in naval engineering, complete information about its design and fate has been elusive. Recently, NOAA and ONR released findings that help fill large gaps in the history of the all-but-forgotten Union submarine, including details about the *Alligator's* inventor, innovative features and its loss in April 1863.

NOAA and ONR initiated the *Alligator* Project in 2002 in an effort to shed new light on America's maritime heritage. In October 2003, at a special symposium, NOAA and ONR brought together experts in naval history, maritime archaeology, oceanography, engineering and ocean exploration to exchange information about the *Alligator* and discuss the possibility of locating and recovering this historic vessel.

B. Applied Research

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.

The following are two representative program examples for the Applied Research category.

Free-Electron Laser Reaches 10 Kilowatts

The Free-Electron Laser (FEL), supported by the Office of Naval Research and located at the U.S. Department of Energy's Thomas Jefferson National Accelerator Facility, achieved 10 kilowatts of infrared laser light in late July, making it the most powerful tunable laser in the world. The recently upgraded laser's new capabilities will enhance defense and manufacturing technologies, and support advanced studies of chemistry, physics, biology, and more.

The FEL program began as the One-Kilowatt Demonstration FEL, which broke power records and made its mark as the world's brightest high average power laser. It delivered 2.1 kilowatts (kW) of infrared light, more than twice it was initially designed to achieve, before it was taken offline in November 2001 for an upgrade to 10 kW. The FEL provides intense beams of laser light that can be tuned to a precise wavelength, and which are more powerful than beams from a conventional laser. Conventional lasers are limited in the wavelength of light they emit by the source of the electrons (such as a gas or crystal) used within the laser.

ONR manages the FEL development effort in cooperation with the Naval Sea Systems Command (NAVSEA) Directed Energy and Electric Weapons Office. ONR is also funding the operation and optimization of the 10 kW FEL, and has several experiments slated to begin in early fall 2004. The Navy intends on using the lessons learned from the development of the 10 kW FEL to begin design and construction of a 100 kW FEL over the next four years. Eventually, the Navy plans on moving the 100 kW laser to an over water test site, and scaling the power up to megawatt levels.

"Brain-Based" Control for Unmanned Vehicles

This summer at the Naval Undersea Warfare Center in Newport, RI, a mobile autonomous research vehicle (MARV) fitted with an agile "brain-based" controller attempted to smoothly and quietly maneuver itself in and out of a docking tube. This tricky feat could be critical to future missions in which Unmanned Underwater Vehicles might carry out missions too dangerous for humans.

ONR's project sponsor reported that the controller, developed jointly by Russia's Nizhny Novgorod State University and Institute for Applied Sciences and New York University Medical School, mimics the part of the human brain that controls balance and limb movement, known as the olivo-cerebellar system. The controller can be used to replicate not only the human body's ability to carry out complex maneuvers but also, for example, the wing control of birds and insects as they adjust their angles of flight. In the case of the MARV, the controller will manipulate the movements of high-lift actuators that change the direction and speed of the vehicle's motion. This capability could be exploited both by autonomous military and commercial systems that require highly precise movement control.

C. Development

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advance Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and producibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced

technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototype are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and development testing.
4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyzes in support of the R&D program.
5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for the Development category.

Clearing Antennas for Better Communication

In August, the Office of Naval Research tested a concept that aims to bring down the number of antennas used for receiving and transmitting radio-frequency (RF) signals because each antenna requires a costly support system, and the antennas interfere with one another.

The advanced multi-function radio frequency concept, or AMRF-C, is developing electronic modules and software to enable a limited number of transmit and receive antennas to handle multiple communications, radar, and electronic warfare (EW) functions. The goal is to halt the proliferation of so-called "stovepipes"-systems tailored for a single function such as super-high-frequency satellite communications or extremely low-frequency submarine contacts. Specialized computers, power hookups, and maintenance support for each antenna means higher costs, and risks, when they fail. The dissimilar antennas can interfere with one another or other ship systems, and degrade performance, thereby forcing ships to limit strictly the operations of certain RF systems when others are needed.

Hybrids on the High Sea; Fuel Cells for Future Ships

As hybrid electric cars become more commonplace on America's highways, the Navy is working to bring hybrid electric ships to the high seas. The Office of Naval Research (ONR) is developing innovative propulsion systems based on new fuel-cell technology for efficient generation of electrical power-and greater design flexibility-for future ships.

To ensure a relatively quick transition to this promising technology, ONR is funding development of a method to extract hydrogen from diesel fuel. A diesel reforming system would take advantage of the relative low cost of the fuel and the Navy's established infrastructure for buying, storing, and transporting it.

ONR is testing a 500-kilowatt diesel fuel reformer, or "integrated fuel processor," that is compatible with a proton exchange membrane (PEM) fuel cell, at the Department of Energy Idaho National Engineering and Environmental Laboratory in Idaho Falls. The testing will continue to prove out the reforming process. ONR is also looking at design approaches to reduce the size of the processor, which consists of an arrangement of valves, water-gas shift reactors, an oxidizer, and other components, so that it won't take up too much space on a Navy ship.



DEPARTMENT OF THE NAVY

GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Department of Defense
Department of the Navy
DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	Other	Research, Development, Test & Evaluation	Operation and Maintenance	Procurement
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	\$ 323,507	\$ 15,140,383	\$ 38,835,051	\$ 31,533,801
Borrowing Authority	0	0	0	0
Contract Authority	0	0	0	0
Net transfers (+/-)	(254,929)	(83,036)	689,364	(176,811)
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	100,536	1,422,855	858,590	11,221,811
Net transfers, actual (+/-)	0	7,500	118,953	203,208
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	0	308,474	5,198,785	1,023,564
Receivable from Federal sources	0	1,715	(94,312)	(256,342)
Change in unfilled customer orders				
Advances received	0	0	61,782	0
Without advance from Federal sources	0	263,623	12,972	154,176
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	\$ 0	\$ 573,812	\$ 5,179,227	\$ 921,398
Recoveries of prior year obligations	\$ 1,058	\$ 750,964	\$ 2,926,779	\$ 4,003,086
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(1,963)	(205,340)	(732,515)	(520,019)
Total Budgetary Resources	\$ 168,209	\$ 17,607,138	\$ 47,875,449	\$ 47,186,474
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ (22,618,778)	\$ 15,667,733	\$ 53,145,441	\$ 41,032,035
Reimbursable	22,762,495	(236,177)	(8,201,287)	(5,319,061)
Subtotal	\$ 143,717	\$ 15,431,556	\$ 44,944,154	\$ 35,712,974
Unobligated balance				
Apportioned	\$ 24,492	\$ 2,031,771	\$ 127,502	\$ 10,863,766
Exempt from apportionment	0	0	0	0
Other available	0	0	0	0
Unobligated Balances Not Available	0	143,812	2,803,794	609,734
Total, Status of Budgetary Resources	\$ 168,209	\$ 17,607,139	\$ 47,875,450	\$ 47,186,474
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net-beginning of period:	\$ 102,743	\$ 6,135,287	\$ 15,805,153	\$ 37,672,898
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	\$ 0	\$ (3,842)	\$ (218,866)	\$ (133,595)
Unfilled customer order from Federal sources	0	(283,282)	(1,855,180)	(11,204)
Undelivered Orders	(840,309)	6,392,738	15,825,519	39,395,853
Accounts Payable	906,061	1	211,325	1,217,804
OUTLAYS:				
Disbursements	\$ 179,649	\$ 14,444,925	\$ 43,941,070	\$ 29,016,095
Collections	0	(308,474)	(5,260,567)	(1,023,564)
Subtotal	\$ 179,649	\$ 14,136,451	\$ 38,680,503	\$ 27,992,531
Less: Offsetting receipts	(115,027)	0	0	0
Net Outlays	\$ 64,622	\$ 14,136,451	\$ 38,680,503	\$ 27,992,531

Department of Defense
Department of the Navy
DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2004 and 2003
(\$ in thousands)

	Military Personnel	Military Construction/ Family Housing	2004 Combined	2003 Combined
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	\$ 36,602,056	\$ 1,513,679	\$ 123,948,477	\$ 122,169,428
Borrowing Authority	0	0	0	0
Contract Authority	0	0	0	739
Net transfers (+/-)	242,821	7,700	425,109	1,662,142
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	177,408	914,037	14,695,238	11,908,983
Net transfers, actual (+/-)	(114,161)	(19,550)	195,950	145,546
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	463,167	712,659	7,706,650	6,792,556
Receivable from Federal sources	(45,641)	34,296	(360,284)	(1,211,532)
Change in unfilled customer orders				
Advances received	0	(5,771)	56,010	(59,842)
Without advance from Federal sources	323	36,413	467,506	308,282
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	\$ 417,849	\$ 777,597	\$ 7,869,882	\$ 5,829,464
Recoveries of prior year obligations	\$ 6,056,640	\$ 18,454	\$ 13,756,981	\$ 7,009,339
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(137,391)	(111,560)	(1,708,789)	(1,452,574)
Total Budgetary Resources	\$ 43,245,222	\$ 3,100,357	\$ 159,182,848	\$ 147,273,067
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 44,089,514	\$ 952,578	\$ 132,268,522	\$ 124,497,950
Reimbursable	(1,320,441)	1,200,802	8,886,330	8,079,881
Subtotal	\$ 42,769,073	\$ 2,153,380	\$ 141,154,852	\$ 132,577,831
Unobligated balance				
Apportioned	\$ 9,215	\$ 916,363	\$ 13,973,107	\$ 13,697,001
Exempt from apportionment	0	0	0	0
Other available	0	0	1	0
Unobligated Balances Not Available	466,934	30,614	4,054,888	998,235
Total, Status of Budgetary Resources	\$ 43,245,222	\$ 3,100,357	\$ 159,182,848	\$ 147,273,067
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net-beginning of period:	\$ 2,100,639	\$ 1,704,174	\$ 63,520,894	\$ 56,100,186
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	\$ (53,914)	\$ (127,342)	\$ (537,560)	\$ (897,842)
Unfilled customer order from Federal sources	631	(653,946)	(2,802,982)	(2,335,476)
Undelivered Orders	909,797	2,040,156	63,723,755	63,419,000
Accounts Payable	907,837	229,981	3,473,010	3,335,213
OUTLAYS:				
Disbursements	\$ 37,094,039	\$ 2,279,541	\$ 126,955,319	\$ 119,051,033
Collections	(463,167)	(706,888)	(7,762,660)	(6,732,714)
Subtotal	\$ 36,630,872	\$ 1,572,653	\$ 119,192,659	\$ 112,318,319
Less: Offsetting receipts	0	0	(115,027)	(246,802)
Net Outlays	\$ 36,630,872	\$ 1,572,653	\$ 119,077,632	\$ 112,071,517

DON GENERAL PROPERTY, PLANT, AND EQUIPMENT

Real Property Deferred Annual Sustainment and Restoration Tables

As of September 30, 2004

(\$ in Millions)

Annual Sustainment FY 2004			
	Required	Actual	Difference
Navy	1,283	795	488
Marine Corps	553	529	24
Building, Structures, and Utilities	1,836	1,324	512

Annual Deferred Sustainment Trend				
	FY 2001	FY 2002	FY 2003	FY 2004
Navy	-	-	-	488
Marine Corps	-	-	-	24
Building, Structures, and Utilities	501	40	346	512

Restoration and Modernization Requirements			
	End FY 2003	End FY 2004	Change
Navy			
Marine Corps			
Building, Structures, and Utilities	-	-	-

Narrative Statement:

Fiscal Year 2004 represents the third year in which the Facility Sustainment Model (FSM) was utilized. Deferred amounts were calculated in accordance with the methodology provided by DoD Financial Management Regulation, Volume 6B, Chapter 12. The output of the Facility Sustainment Model continues to undergo quality checks to ensure its accuracy. Accordingly, requirements for each fiscal year are prepared with a more updated and accurate version of the model.

In FY 2004, FSM version 4.0 was used for programming and budgeting facilities sustainment.

This year represents the first year that separate breakout of Navy and Marine Corps sustainment amounts can be provided.

The Department of the Navy General Fund has no material amounts of deferred sustainment for the General Property, Plant, and Equipment categories of Personal Property, Heritage Assets, or Stewardship Land.

MILITARY EQUIPMENT

Deferred Maintenance Amounts

As of September 30, 2004

(\$ in Thousands)

<u>Major Type</u>	<u>Amount</u>
1. Aircraft	\$ 98,885
2. Ships	97,642
3. Missiles	66,444
4. Combat Vehicles	40,193
5. Other Weapons Systems	<u>143,964</u>
6. Total	\$ 447,128

Narrative Statement:

Aircraft Deferred Maintenance

There are four sub-categories, which comprise aircraft, deferred maintenance: airframe rework and maintenance (active and reserve), engine rework and maintenance (active and reserve), component repair and software maintenance. The airframe rework deferred maintenance calculation reflects executable unfunded requirements, which represent aircraft that failed Aircraft Service Period Adjustment (ASPA) or reached fixed Period End Date (PED) at year-end. The engine rework deferred maintenance calculation reflects year-end actual requirements minus actual funded units. Component repair deferred maintenance cost represents the difference between the validated requirement and funding. Aircraft deferred maintenance reflects only executable deferred maintenance. Unexecutable deferred maintenance is not reported for airframe rework, engine rework and component repair, nor is it collected.

The Depot maintenance is currently being performed under both the Standard Depot Level Maintenance (SDLM) and Integrated Maintenance Concept (IMC) programs. Currently, the C-130, E-2C, EA-6B, F/A-14, F/A-18, H-60, UH-1N, and S-3 aircraft programs have been incorporated under the IMC concept. The IMC concept uses Planned Maintenance Intervals (PMI), performing more frequent depot maintenance, with smaller work packages, thereby reducing out of service time. The goal of this program is to improve readiness while reducing operating and support costs. Commander, Naval Air Systems Command's (COMNAVAIRSYSCOM) Industrial Strategy is to maintain the minimum level of organic capacity, consistent with force levels, that is necessary to sustain peacetime readiness and maintain fighting surge capability. COMNAVAIRSYSCOM works in partnership with private industry to make maximum use of industry's production capabilities and for non-core related aviation depot level maintenance.

Ship Deferred Maintenance

Fleet Type Commanders provided deferred Ship Maintenance data. Data was collected from the Current Ships' Maintenance Plan (CSMP) database, which captures maintenance actions at all levels (organizational, intermediate, depot) for active and reserve ships. Only depot level deferred maintenance has been provided in this report. This includes maintenance actions that were deferred from actual depot maintenance work packages as well as maintenance actions that were deferred prior to inclusion in a work package due to fiscal, operational, or capacity constraints. Although there is a significant amount of deferred maintenance actions, there are no ships that fall into the category of "unacceptable operating condition". Any ship that would be at risk of being in unacceptable operating condition would receive priority for maintenance funding to maintain acceptable operating condition.

Missile Maintenance

Four categories are used to determine missile maintenance: missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that is funded in accordance with the annual budget controls for the Missile Maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained (reworked) annually.

Combat Vehicles

The combat vehicles category is for vehicle overhaul for the active and reserve Marine Corps.

Other Weapons System

The "Other Weapons System" category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairables. Three categories define ordnance maintenance: ordnance maintenance, software maintenance and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between requirements and funding.

Software Maintenance

Software maintenance requirements and deferred maintenance for aircraft, missiles and other equipment are determined using the same methodology and, therefore will not be addressed separately for each Military Equipment Deferred Maintenance reporting categories. Software maintenance includes the operational and system test software that runs in the airborne avionics systems (e.g., mission computer, display computer, radar) and the software that runs the ground based support lab's used to perform software sustainment (e.g., compilers, editors, simulation, configuration management). The deferred maintenance reported for the execution year are those requirements below the funding threshold and up to, but not exceeding, the capacity of the Software Support Activity (SSA) in that particular fiscal year. There may be deferred requirements that exceed the capacity of the SSA, but these are not reported in the Exhibit OP-30 for the execution year, but rather identified as an out year requirement.

Schedule, Part A DoD Intra-governmental Asset Balances (\$ Amounts in Thousands)						
	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Government Printing Office	4		\$ 10			
The Judiciary	10		22			
Department of Commerce	13		1,975			
Department of the Interior	14		271			\$ 177,407
Department of Justice	15		3,136			
Department of Labor	16		73			59
United States Postal Service	18		14			
Department of State	19		3,924			
Department of the Treasury	20	\$ 82,093,913	1,496		\$ 9,481	
Department of the Army	21		38,049			154
Nuclear Regulatory Commission	31		38			
Department of Veterans Affairs	36		13			
General Services Administration	47		3,480			
National Science Foundation	49		563			212
Department of the Air Force	57		15,358			75,516
Federal Emergency Management Agency	58		139			
Environmental Protection Agency	68					1,077
Department of Transportation	69		385			2,643
Homeland Security	70		6,461			
Department of Health and Human Services	75		92			24
National Aeronautics and Space Administration	80		9,629			395
Department of Housing and Urban Development	86		9			
Department of Energy	89		401			1,144
Department of Education	91		167			
US Army Corps of Engineers	96		1,657			
Other Defense Organizations General Funds	97		67,507			4
Other Defense Organizations Working Capital Funds	97-4930		30,396			14,010
Army Working Capital Fund	97-4930.001		8,638			11
Navy Working Capital Fund	97-4930.002		56,800			
Air Force Working Capital Fund	97-4930.003					66
Totals might not match reports.	Totals	\$ 82,093,913	\$ 250,703	\$ 0	\$ 9,481	\$ 272,722

**Schedule, Part B DoD Intra-governmental
Entity Liabilities**

(\$ Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Library of Congress	3	\$ 12		
Department of Agriculture	12	550		
Department of the Interior	14	15,441		
Department of Justice	15	17		
Department of Labor	16			\$ 642,613
Department of State	19	14,306		
Department of the Treasury	20	47		41,833
Department of the Army	21	59,749		
Office of Personnel Management	24	1		52,834
Federal Communications Commission	27	438		
Nuclear Regulatory Commission	31	44		
Department of Veterans Affairs	36	6,676		
General Services Administration	47	226,749		
National Science Foundation	49	913		
Department of the Air Force	57	4,792		
Tennessee Valley Authority	64	813		
Environmental Protection Agency	68	426		
Department of Transportation	69	-		
Homeland Security	70	17,766		
Department of Health and Human Services	75	44		
National Aeronautics and Space Administration	80	4,370		
Department of Energy	89	107,944		
US Army Corps of Engineers	96	147		
Other Defense Organizations General Funds	97	52,967		472
Other Defense Organizations Working Capital Funds	97-4930	336,552		
Army Working Capital Fund	97-4930.001	14,767		
Navy Working Capital Fund	97-4930.002	568,385		
Air Force Working Capital Fund	97-4930.003	3,701		
The General Fund of the Treasury	99			3,247,050
<i>Totals might not match reports.</i>	Totals:	\$ 1,437,617	\$ 0	\$ 3,984,802

Schedule, Part C DoD Intragovernmental revenue and related costs		
(\$ Amounts in Thousands)	Treasury Index	Earned Revenue
Government Printing Office	4	\$ 41
Executive Office of the President	11	73,227
Department of Agriculture	12	24,068
Department of Commerce	13	19,578
Department of the Interior	14	618
Department of Justice	15	17,855
Department of Labor	16	2
United States Postal Service	18	9
Department of State	19	40,740
Department of the Treasury	20	8,966
Department of the Army	21	208,864
Nuclear Regulatory Commission	31	345
Department of Veterans Affairs	36	227
General Service Administration	47	1,377
National Science Foundation	49	2,003
Department of the Air Force	57	201,169
Federal Emergency Management Agency	58	682
Department of Transportation	69	4,081
Homeland Security	70	45,702
Agency for International Development	72	1
Small Business Administration	73	(2)
Department of Health and Human Services	75	465
National Aeronautics and Space Administration	80	17,820
Department of Housing and Urban Development	86	7,798
Department of Energy	89	8,568
Department of Education	91	1,142
US Army Corps of Engineers	96	3,282
Other Defense Organizations General Funds	97	800,104
Other Defense Organizations Working Capital Funds	97-4930	190,129
Army Working Capital Fund	97-4930.001	40,394
Navy Working Capital Fund	97-4930.002	1,423,377
Air Force Working Capital Fund	97-4930.003	-
DoD Medicare-Eligible Retiree Health Care Fund		130,228
Total might not match reports.	Total:	\$ 3,272,860

Schedule, Part E DoD Intragovernmental non-exchange revenues			
<i>(\$ Amounts in Thousands)</i>	Treasury Index	Transfers In	Transfers Out
Department of the Air Force	57	\$ (2,809)	0
Other Defense Organizations General Funds	97	14,489	0
Other Defense Organizations Working Capital Funds	97-4930	121,026	0
Navy Working Capital Fund	97-4930.002	45,177	0
<i>Total might not match reports.</i>	Total	\$ 177,883	0



DEPARTMENT OF THE NAVY

GENERAL FUND OTHER ACCOMPANYING INFORMATION

APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS

Entity Accounts:

General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing Construction, Navy and Marine Corps
17 0735	Family Housing, Navy and Marine Corps (Operations and Maintenance)
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

Revolving Funds

17 4557	National Defense Sealift Fund, Navy
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Trust Funds

17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy Gift and Museum Fund

Special Funds

17X5095	Wildlife Conservation, Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund,
17X5429	Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts:

17 3XXX	Receipt Accounts
17X6XXX	Deposit Funds